Constructing a Scenario Planning Method as a Tool for Political Risk Mitigation:

The Case of Exxon Mobil's Operations in the South China Sea

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Declaration

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Abstract

Uncertainty and unpredictability within the global political environment has presented considerable political risks for businesses and organisations. An alternative means to explore how these actors can mitigate these political risks is to utilise scenario planning to maximise the actor's understanding of the uncertainties within the environment, thus enabling the identification of political risks as well as providing insights for potential mitigation strategies. The primary research question for the study is therefore concerned with building a scenario planning method to facilitate political risk mitigation. The question is answered by constructing a method which uses scenario planning to develop an understanding of the key driving forces influencing the environment and construct a scenario matrix from these driving forces for a corporation or organisation. From this understanding of the scenarios and how they may impact the corporation, the first sub-research question, which seeks to address how the scenarios can be utilised to identify political risks and risk mitigation strategies relevant for the corporation, can be answered.

The final two research questions test the method's capacity to facilitate risk mitigation for the oil and gas corporation Exxon Mobil's operations in the South China Sea from 1 February 2017 to 1 February 2018 by constructing scenarios for the SCS over the timeframe and using the scenarios to identify and mitigate political risks for Exxon Mobil. Utilising the method, the study constructs a scenario matrix for the South China Sea which is used to identify four risk factors relevant for Exxon Mobil. From these risk factors, the information compiled on Exxon Mobil and the scenarios themselves, the study is able to successfully identify four risk mitigation strategies that could be implemented by Exxon Mobil in the SCS. Within the confines of this case study, it was concluded that scenario planning could be used as a tool for political risk mitigation, and that this relationship should be explored further.

Opsomming

Onsekerheid en onvoorspelbaarheid binne die globale politieke omgewing behou aansienlike politieke risiko's vir besighede en organisasies. Een alternatiewe manier om te verstaan hoe besighede en organisasies hierdie politieke risiko's kan versag, is om scenario-beplanning te gebruik om die akteurs se insig in die onsekerhede binne die omgewing te maksimeer, sodat dit moontlik is om politieke risiko's te identifiseer en insigte te bied vir moontlike versagtende strategieë. Die primêre navorsingsvraag van hierdie studie is dus om 'n scenario-beplanningsmetode te ontwikkel om politieke risikobestuur te fasiliteer. Die vraag word beantwoord deur om 'n metode te konstrueer wat scenario-beplanning gebruik om ‘n begrip te ontwikkel van die hoof dryfkragte wat die omgewing beïnvloed en om 'n scenario-matriks uit hierdie dryfkragte vir 'n korporasie of organisasie op te stel. Uit hierdie begrip van die scenario's en hoe die scenario’s die korporasie sal beïnvloed, word die tweede navorsingsvraag aangespreek deur die gebruik van die scenario's wat volgends die metode gebou is om relevante politieke risikofaktore vir die korporasie waarvoor die metode geïmplementeer is te identifiseer, verduidelik en te versag.

Die laaste twee navorsingsvrae toets die metode se vermoë om risikobestuur vir die olie- en gasmaatskappy Exxon Mobil se bedrywighede in die Suid-Chinese See (SCS) vanaf 1 Februarie 2017 tot 1 Februarie 2018 te fasiliteer deur om scenario's vir die SCS oor die tydraamwerk te konstrueer en die scenario's te gebruik om politieke risiko's vir Exxon Mobil te identifiseer en versag. Met behulp van die metode, ontwikkel die studie 'n scenario-matriks vir die Suid-Chinese See wat gebruik word om vier risikofaktore relevant vir Exxon Mobil te identifiseer. Uit hierdie risikofaktore, die inligting wat op Exxon Mobil saamgestel is en die scenario's self, kan die studie vier risikobestuurstrategieë identifiseer wat deur Exxon Mobil in die SCS geïmplementeer kan word. Binne die beperkinge van hierdie gevallestudie is die gevolgtrekking gemaak dat

scenario beplanning gebruik kan word as 'n instrument vir politieke risikobestuur, en dat hierdie verhouding verder ondersoek moet word.

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List of Acronyms

ADIZ	Air Defense Identification Zone
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
BERI	Business Environment Risk Intelligence
CSIS	Center for Strategic & International Studies
CIA	Corporation Impact Assessment
CNOOC	Chinese National Offshore Oil Corporation
CPC	Communist Party of China
CPV	Communist Party of Vietnam
ECS	East China Sea
EIU	The Economist Intelligence Unit
EEZ	Exclusive Economic Zone
FON/FONOP/FONOPS	Freedom of Navigation Operation(s)
GDP	Gross Domestic Product
NGCP	National Grid Corporation of the Philippines
OODA	Observe, Orient, Decide, Act
OPEC	Organization of the Petroleum Exporting Countries
PESTLE	Political, Economic, Social, Technological, Legal, Environmental

PRS	Political Risk Services
SCS	South China Sea
SEEPT	Social, Economic, Environment, Politics, Technology
SEEPTL	Social, Economic, Environment, Politics, Technology, Legal
TPP	Trans-Pacific Partnership
UNCLOS	United Nations Convention on the Law of the Sea
USA/US	United States of America

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Chapter One: Introduction to the Study

1.1 Background to the Study and Introduction to the Topic

Since the field of political risk management, which entails the identification, analysis and mitigation of political risks,[1] began to develop in the 1970s, it has aided corporations and organisations to avoid the negative repercussions of political, social and economic interference in their operations (Sottilotta, 2013: 2; Jones & Lubinski, 2011: 36; Robock, 1971: 6). The relevance of political risk management has increased as a formal field since the 1970s as a result of "the fast-changing dynamics of the internationalisation of trade and investment", which have been influenced by political shocks, leading to a more unpredictable international business environment (Sottilotta, 2013: 1). This relevance was made apparent on the 16 January 2013 at the Tigantourine gas facility at In Amenas, Algeria when militants attacked the gas facility in retaliation for Algeria having allowed France to use their airspace to attack other militant Islamists and used the attack as a means to increase the militants' own status (Porter, 2015; Chrisafis, Borger, McCurry & Macalister, 2013). One hundred expatriate workers at the facility were taken hostage and 40 workers were killed as there was insufficient security because of a lack of information on Algerian Army movements and ineffective consultation with security experts (Porter, 2015; Lambrechts & Blomquist, 2016: 6, 10). Despite having invested considerably in security measures for the facility, its stakeholders, Statoil and the British government, did not adequately prepare for the possibility of terrorism threatening the facility (Lambrechts & Blomquist, 2016: 9). These stakeholders could have used preventative tools to improve their awareness of regional risks, such as terrorism, which could have helped to identify and mitigate such risks (Lambrechts & Blomquist, 2016: 9).

Scenario planning is one such preventative tool that could have been used to avert the tragedy. Scenario planning involves the construction of potential futures for a particular environment by identifying and understanding uncertainties in the environment through compiling information and identifying trends (Ringland, 2006: 4). This allows for the isolation of key driving forces which may influence the environment over the timeframe (Ringland, 2006: 4). Pierre Wack (1985a, 1985b) helped develop scenario planning as a field while working for Shell in the 1970s and used it to prepare Shell for the 1973 Organisation of the Petroleum

[1] Political risk management is conceptualised in detail in section 2.4.2.

Exporting Countries (OPEC) oil embargo (Wack, 1985b). He noted that the international business environment had become more unstable, which means that scenario planning needed to accept uncertainty as a constant in the business environment in order to anticipate major shifts within it (Wack, 1985a). Had either stakeholder at In Amenas implemented extensive scenario planning to construct futures over the time period of their operation, they could have identified trends regarding uncertainties associated with potential terrorist activity towards foreign commercial operations given the uncertain political climate in the region, and understood how such political risks could have impacted their operations over a timeframe. As seen in this brief example, scenario planning has potential to be used by corporations and organisations to navigate this increasingly unpredictable global business environment by providing a means to identify political risks, the way that they may develop over time and then develop strategies to address those risks.

This study seeks to construct an alternative method of how scenario planning can be used as a tool for political risk mitigation in order to enable corporations and organisations to navigate uncertain political environments. Although the In Amenas example suggested the potential utility of scenario planning, exploring the potential relationship between these two fields would require developing a specific method to accomplish this. While scenario planning has been utilised by corporations such as Shell for this purpose in the past (Shell, 2008), the study constructs an alternative method in order to facilitate this further exploration of the relationship between scenario planning and political risk management. In order to accomplish this, the study amalgamates scenario planning theory and methods from authors such as Cronje (2014), Schoemaker (1995) and Ringland (1998) with political risk theory from authors such as Kobrin (1978), Howell and Chaddick (1994) and Bremmer and Keat (2009) in order to develop a scenario planning method[2] that can be used for political risk mitigation. The importance of using scenario planning for this purpose is especially relevant in the oil and gas industry, as Lambrechts and Blomquist (2016) argue that it is particularly vulnerable to a wide range of political risks (Lambrechts & Blomquist, 2016: 2). This reality regarding the oil and gas industry provides a relevant case study in which to apply and test the scenario planning method constructed in the study. The method is applied in the context of the South China Sea (SCS)

[2] The term "method" describes the attempt to "improve the quality of the educated guesses" underpinning scenario planning and risk management (Ringland, 1998: 11); a method is therefore described as a systematic procedure for achieving a goal or solving a problem (Merriam-Webster, 2017).

region with the intention of constructing scenarios in order to identify political risks and provide mitigation strategies for the oil and gas corporation Exxon Mobil. Exxon Mobil has been excavating the considerable oil and gas reserves in the SCS off the eastern and southern coasts of Vietnam since 2008 with Vietnamese state-owned oil and gas corporation PetroVietnam (Hayton, 2014: 141). Complicating their operations has been the territorial dispute regarding ownership of the maritime territory consisting of the SCS as well as the rocks and islands situated within it (Hayton, 2014: 141). China, the Philippines, Malaysia, Brunei and Vietnam all claim territory within the SCS (Clark, 2016), and the dispute has escalated in intensity since 2010 with China claiming approximately 90% of the SCS as demarcated by their nine-dash line territorial boundary (Rachman, 2015: 75; Beech, 2016a). This has led to regional tensions between China and its neighbours, notably the Philippines and Vietnam (Rachman, 2015: 104).

The SCS dispute has also become a major geopolitical conflict since China, having experienced remarkable economic growth over the last ten years, has increased its economic and diplomatic influence in Southeast Asia (Rachman, 2015: 38). This has created tensions with the current global superpower, the United States of America (USA) (Rachman, 2015: 38). The USA has argued for maintaining the laws upheld by the United Nations Convention on the Law of the Sea (UNCLOS), which was used in July 2016 by The Hague to delegitimise China's nine-dash line claims (Hunt, 2016). Furthermore, the USA has used Freedom of Navigation Operations (FONOPs) to ensure that the vital sea lanes in the SCS, through which approximately $5 trillion dollars of trade passes annually (Fensom, 2016), remain open (Wu, 2016).

This has created considerable tensions between China and the USA, which has in turn given rise to uncertainty regarding how China, the USA and China's regional neighbours will interact with one another in the future and how these interactions will have an impact on the political risks experienced by non-state actors such as Exxon Mobil. Therefore this case study provides a useful context in which to apply the scenario planning method constructed in this study. This study intends first to develop a scenario planning method which can be used as a tool for political risk mitigation and then apply the method to the SCS region in order to construct scenarios covering the timeframe of 1 February 2017 to 1 February 2018 and then use the scenario planning element of the method to identify and explain potential political risk factors and risk mitigation strategies for Exxon Mobil. The rest of this chapter provides a summary of the literature consulted for the study, the research problems and research questions for this

study, the objectives and significance of the study, the research design and methodology, limitations and delimitations and an outline for the following four chapters.

1.2 Preliminary Literature Review

While the research uses literature on scenario planning, political risk management and geopolitics, the foundation for the rationale behind scenario planning and political risk management derives from problem-solving and decision-making theories. An important gateway to problem-solving theory is Simon and Newell's *Human Problem Solving: The State of the Theory* (1970), which explains how humans perceive their environments and endeavour to solve the problems within them. Complementing this work is Simon's *Problem Solving* (1997), which defines the different types of environments and problems that problem-solvers can expect to face and how they can try to understand them. Providing further insights into Simon's work is Campitelli and Gobet's (n.d.) *Herbert Simon's Decision-Making Approach: Investigation of Cognitive Processes in Experts*, which explores the various pieces of literature written by Simon and applies them to both problem-solving and decision-making. Davidson and Sternberg's *The Psychology of Problem Solving* (2003) supplements Simon's theory by contrasting the environments in which there is information as opposed to environments in which there is not and considers how this impacts on the problem-solver's approach. Regarding decision-making theory, Kahneman and Tversky's *Prospect Theory: An Analysis of Decision under Risk* (1979) explores the psychology of decision-makers when faced with the presence of risk. Oliveria's (2007) *A Discussion of Rational and Psychological Decision-Making Theories and Models: The Search for a Cultural-Ethical Decision-Making Model* provides a detailed explanation of rational decision-making, which is necessary in conceptualising the theory.

Building from this base, it is possible to engage with the literature of the other theories and fields applied in this study. Pertaining to scenario planning, Ringland's *Scenario Planning Managing the Future* (1998) and *Scenario Planning Managing the Future* (2nd Edition; 2006) provide conceptualisations of scenario planning and contain several past examples of scenario planning methods used by corporations and governments. Further useful definitions of scenario planning are found in Lindgren and Bandhold's *Scenario Planning The Link between Future and Strategy* (2003), which provide several definitions from other authors in the field as well as explanations of key elements of scenario planning. As the study constructs a corporation- or

organisation[3]-centric scenario planning method that could develop scenarios and relate the scenarios to the operations of the corporation, it was necessary to utilise Schoemaker's *Scenario planning: a tool for strategic thinking* (1995). Schoemaker (1995) explains how a scenario planning method can incorporate information on stakeholders within the environment in order to relate the scenarios to them.

There is a wide range of literature on political risk analysis and mitigation that provides insights into the content and purpose of the field. Kobrin's *Political Risk: A Review And Reconsideration* (1978) has provided a useful introduction to the field and defines the primary purposes of political risk analysis. Further insight into political risks is provided by Bremmer and Keat's *The Fat Tail* (2009), which constructs a more modern conceptualisation of political risk analysis. Howell and Chaddick's *Models of Political Risk for Foreign Investment and Trade* (1994) and Brink's *Measuring Political Risk: Risk to Foreign Investment* (2004) provide useful conceptualisations of political risk, which is important as the field lacks a widely accepted definition. Thus with a number of definitions to draw on, this study is able to construct a more inclusive conceptualisation. Howell and Chaddick's (1994) literature is also useful for explaining different methodologies that political risk analysis could adopt, ranging from qualitative to quantitative models. Pertaining to political-security risk, Fouche's *Political-Security Risk Analysis of Uganda* (2003) provides an important basis as it defines political-security risks. Lambrechts, Weldon and Boshoff's *Political Insecurity and the Extraction Industry in the Democratic Republic of Congo: Moving towards and Industry Specific Political –Security Risk Analysis Model* (2010) segments political-security risk into transnational, national and human levels, thus making the concept of political-security risk more understandable and applicable in this study. Political risk mitigation is primarily defined in this study with reference to Bremmer and Keat's *The Fat Tail* (2009) and Toksoz's *Guide to Country Risk* (2014). Both Bremmer and Keat as well as Toksoz define risk mitigation and provide strategy directions which can be used to mitigate risks. While Bremmer and Keat (2009) and Toksoz (2014) are not the only sources that contain information on risk mitigation strategies, they are the most detailed.

Another important concept utilised in the research is geopolitics. Agnew's *Geopolitics Re-visioning World Politics* (2003) and Scholvin's *Geopolitics An Overview of Concepts and*

[3] Henceforth the study uses the word "corporation" to refer to both corporations and organisations.

Empirical Examples from International Relations (2016) provide excellent conceptualisations of both classical and post-modern geopolitics. Complementing Agnew's literature, Tuathail, Dalby and Routledge's *The Geopolitics Reader* (1998) explains how geopolitics has expanded beyond relations between states over physical space and now includes other factors such as economics, which is especially useful in conceptualising post-modern geopolitics. Relating geopolitics to political risk, Toksoz's *Guide to Country Risk* (2014) notes how the blowback created by geopolitical events, notably the rise and fall of powers, impacts on political risks.

Pertaining to the SCS case study, there is a wealth of literature on both the dispute itself as well as how the dispute has impacted on the oil and gas corporations operating there. Rachman's *Easternization* (2015) and Lam's *Chinese Politics in the Era of Xi Jinping* (2015) provide background information on the conflict as well as explain the history of the dispute and the interests of the state actors involved. Marshall's (2016) *Prisoners of Geography* provides an in-depth analysis of the geopolitical impact of the SCS dispute as well as explaining the geopolitical ambitions of the various actors involved. Jinping's *The Chinese Dream of the Great Rejuvenation of the Chinese Nation* (2014) provides important insights into China's national psyche and worldview. Hiebert, Nguyen and Poling's *Perspectives on the South China Sea* (2014) is an excellent analysis of China's strategies in the SCS. Additional important sources have been collected from the British Broadcasting Corporation, which has provided coverage of the SCS dispute and how it has evolved over the last few years. The Center for Strategic and International Studies (CSIS) has also provided important analyses of the SCS dispute, notably on China's military developments and expenditure. Buszynski and Roberts's *The South China Sea Dispute: Political, Legal and Regional Perspectives* (2015) and Hayton's *The South China Sea The Struggle for Power in Asia* (2014) both explore how the SCS dispute has impacted on the oil and gas corporations operating there, including Exxon Mobil.

1.3 Research Problems and Research Questions

The unpredictability of the global environment and the challenges that it poses for corporations have highlighted the importance of scenario planning as well as its ability to relate the scenarios to the corporation to which the scenario planning was applied. This reality introduces three research problems addressed by this study. The first research problem is that for corporations there are uncertainties and risks influenced by political factors within global and regional environments that can impact negatively on their operations (Howell & Chaddick, 1994: 71).

These political risks have become more relevant with the "internationalisation of production" and "changes in the structure of socio/economic relationships," which have increased the role that political institutions as well as "economic, societal, and governmental forces" play in the business environment (Kobrin, 1978: 1; Alon & Herbert, 2009: 127). While there are scenario planning and political risk analysis methods that identify these uncertainties and risks for corporations, the dynamic and unpredictable nature of the global political environment ensures that this problem remains relevant (Lindgren & Bandhold, 2003: 34; Kobrin, 1978: 1). This continued relevance was made clear in the United Nation's 2016 World Investment Report, as geopolitical risks and regional tensions were noted to have negatively impacted on foreign direct investment (FDI) and may continue to do so in 2017 (United Nations Conference on Trade and Development, 2016). As briefly discussed at the beginning of this chapter, using the example of In Amenas shows that scenario planning has the potential to be used as a tool for political risk mitigation, as it can identify uncertainties within an environment and explore how these uncertainties may impact a corporation over time as political risk factors. Ringland states that scenario planning is useful for "managing the uncertainties of the future" (1998: 2), and understanding these uncertainties and how they may manifest themselves within the environment could enable decision-makers in corporations to "gather and transform information of strategic significance into fresh perceptions" useful for risk identification and mitigation (Wack, 1985b). While scenario planning has been used by corporations such as Shell in order to identify future potential risks (Shell, 2008), the omnipresence of uncertainty in international and regional environments remains a considerable obstacle. This makes the identification of alternative means to inform corporations of potential risks within their environment and enabling them mitigate the risks a necessary goal.

In order to achieve this goal, it is necessary to develop a specific scenario planning method that can present "an internally consistent view of what the future might turn out to be" (Porter, 1985: 446), and thus be used to identify political risk factors and provide mitigation strategies for a corporation. This is the second research problem addressed by this study. While it was mentioned earlier that Shell has utilised scenario planning in order to identify political risks and inform mitigation strategies, such methods can be developed further, given the continued relevance of political risks. While other political risk analysis methods such as the Business Environment Risk Index (BERI) and the Political Risk Services (PRS) are also likely to utilise elements of scenario planning (Howell & Chaddick, 1994: 78, 82; Zonis, Lefkowitz, Wilkin & Yackley, 2011: 76), the method constructed in this study utilises scenario planning as the

foundation for identifying and mitigating political risks as opposed to determining the probability and impact of pre-determined risk factors. Thus this study explores an alternative method of analysing and mitigating political risks by using scenario planning to embrace and understand the uncertainties within the environment.

The third primary research problem identified at the beginning of this section entails ensuring that the scenario planning can be communicated to the decision-makers so that it is relevant to their interests and operations. Wack (1985b) notes that a key failure of scenario planning has been the failure to communicate the relevance of the scenarios to decision-makers (Wack, 1985b). While scenario planning methods have incorporated information on corporation operations and interests (Ringland, 1998: 18), scenario planning being used for the sake of risk mitigation needs to use this information on the actor for whom it is being implemented as well as the scenarios themselves in order to communicate what political risks the actor may experience over the timeframe of the method. While scenario planning theorists such as Schoemaker (1993) emphasise the importance of incorporating the interests, roles and power positions of the stakeholder when implementing scenario planning (Schoemaker, 1993: 197), relating the scenarios to the actor as well to enable the method to identify and mitigate political risks relevant for the decision-maker, thus addressing Wack's concern, remains a problem that the study intends to address.

The final research problem concerns the way that such a scenario planning method could be used specifically for political risk mitigation for Exxon Mobil's operations in the SCS. This entails explaining how political risks may develop given the scenarios constructed, which scenarios contain the highest probability of the risks impacting on Exxon Mobil operations and what mitigation strategies could be implemented, given the scenarios identified. The SCS dispute is an important 21st-century geopolitical issue (Marshall, 2016: 51), as it involves several states competing for control and geopolitical influence over physical space through diplomatic, economic and military means (Marshall, 2016: 51). China's economic growth over the last 10 to 15 years has enabled them to expand their geopolitical ambitions (Rachman, 2015: 59). This geopolitical competition in the SCS for influence and control with the USA makes the SCS dispute an extremely important issue with an uncertain future (Bremmer, 2015: 11). This uncertain future includes how the continuing dispute and potential escalations may impact oil and gas operations in the SCS. Given that oil and gas operations in the SCS have experienced political risks in the past (Buszynski, 2012), identifying scenarios for the region

and using them to isolate political risk factors and mitigation strategies for Exxon Mobil's operations in the future is a necessary undertaking. This is also important as it can provide insights into the relevant political risk factors impacting on the oil and gas industry operating in the region as well.

Given the research problems identified, this study addresses how an alternative scenario planning method can be used to identify and mitigate political risks in order to equip corporations to identify, understand and mitigate political risks within their environment, using the case study of Exxon Mobil in the SCS to test the method. While it is acknowledged that such methods have already been developed, it was also noted that uncertain political environments have continued to negatively affect actors (United Nations Conference on Trade and Development, 2016). This necessitates further exploration into how scenario planning can facilitate political risk mitigation for corporations operating in uncertain political environments. Thus the primary question that is addressed by this research is:

- How can an alternative scenario planning method be developed and utilised as a tool for political risk mitigation?

While the primary question seeks to construct an alternative scenario planning method to be used as a tool for risk mitigation, there is an important sub-question that addresses the third primary research problem identified in section 1.3:

- How can the method relate the scenarios to the operations and interests of the corporation such that the method can use the scenario planning to identify and analyse political risks relevant to the corporation's operations and provide mitigation strategies?

The final two sub-questions relate to the case study that this method is being applied to, thus testing the method in a practical environment, which is the SCS:

- What are the potential futures that may occur in the SCS from 1 February 2017 to 1 February 2018?
- What are the political risks facing Exxon Mobil in the SCS over the timeframe, given the scenarios identified, and what strategies can they implement to mitigate those risks?

1.4 Objectives and Significance of the Study

Bremmer and Keat (2009) argue that to effectively implement political risk mitigation, which specifically involves decreasing the likelihood and impact of political risks (Bremmer & Keat, 2009: 195), an understanding of the environment is vital (Bremmer & Keat, 2009: 191). This study seeks to determine whether a scenario planning method can accomplish this goal of facilitating an understanding of the uncertainties within an environment in a manner that this understanding of the uncertainties and how they may develop can facilitate political risk analysis and mitigation. This method can be formally referred to as a scenarios-based risk mitigation method.[4] Lindgren and Bandhold (2003) argue that this goal is achievable since scenario planning can address what could happen in the future and thus make risk management possible (Lindgren & Bandhold, 2003: 21). Using Wack (1985b) and de Geus' (1988) discussions of scenario planning, it is possible to clarify the study's primary objective. This study aims to construct a scenario planning method which is able to not only identify and understand the uncertainties within the environment, but also how these uncertainties may interact with one another; thus maximising the decision-maker's understanding and knowledge of the environment over a specific timeframe (de Geus, 1988). This understanding can be subsequently used to identify and mitigate political risks for a corporation. To achieve this objective, the study notably utilises the scenario planning method constructed by Frans Cronje in his book *A Time Traveller's Guide to Our Next Ten Years* as a foundation for the structure of the method because of its clarity and the scenario planning process it outlines, making it useful in building this understanding and enhancing the corporation's perceptions of the environment. Using this understanding of the environment and how it may develop, the method identifies political risks and risk mitigation strategies relevant for the corporation.

Building on that final point, the focus of the second objective is ensuring that the scenario planning has relevance for the decision-makers within their specific business environment. While political risk analysts appreciate the value of understanding how an environment can evolve over time (Bremmer & Keat, 2009: 11), this method seeks to ensure that the scenario planning can determine which political risks are more likely to impact a corporation over the timeframe from the scenarios, how the risks may develop given the scenarios and what mitigation strategies can be prescribed. This requires information on the corporation's interests, stake and possibly their operational history in the region as well as an understanding of the

[4] Henceforth, the scenarios-based risk mitigation method is referred to as the scenario planning method for the sake of brevity. The two terms are interchangeable.

dynamics which have impacted them in the environment (Alon & Herbert, 2009: 134), to be collected and analysed. This ensures that the scenarios are not vague and unusable. It is thus important to ensure that this information is incorporated into the analysis conducted by the method. In order to specifically answer the second research question, these scenarios identify how the environment as a whole may evolve over the timeframe and they are used by the method to identify both micro and macro-political risks for the corporation. This is because the method uses the scenarios to identify risks for the corporation that may specifically impact them and their industry as well as risks that may impact "all foreign investments and operations in the host country, regardless of industry" (Kansal, 2015), but also impact the corporation, such as armed conflicts, civil and labor unrest and political instability (Alon, Gurumoorthy, Mitchell & Steen, 2006: 628). This enables the method to prescribe risk mitigation strategies that address both "environmental events" as well as corporation-specific risks that are identified from the scenarios (Kobrin, 1981: 253).

The final objective of this research is to utilise the method to construct scenarios for the SCS over the chosen timeframe and use the scenarios to identify and mitigate political risks for Exxon Mobil. The SCS dispute is currently a major geopolitical conflict and it is uncertain how the conflict will develop (Rachman, 2015: 38). Developing scenarios for this uncertain environment and communicating how these scenarios will create new political risks, impact on existing ones and shape mitigation strategies for the oil and gas corporation Exxon Mobil could provide important insights for further analysis of the conflict as well as elucidate the relationship between the dynamics driving the conflict and the political risks for oil and gas corporations in the region.

The significance of this study is that this research explores how the field of political risk analysis can use scenario planning as a means to expand its understanding of the environment and the uncertainties within it and use this understanding to facilitate political risk mitigation. In constructing a method which uses scenario planning to identify and mitigate political risks for a corporation, the uncertainties of the future can be explained, with the resulting insights being used to enable alternative means to analyse political risks, thus enabling corporations to navigate uncertain political environments. Political risks have continued to impact negatively on corporations' operations (United Nations Conference on Trade and Development, 2016), and so identifying alternative methods to identify and mitigate these risks is a key element that makes this study significant. Maack (n.d.) states that scenarios "help decision makers manage

risk and develop concrete contingency plans and exit strategies" and hence any exploration of the use of scenario planning for risk mitigation could strengthen the corporations' capacity to identify and mitigate political risks in the future (Maack, n.d). Furthermore, this study uses the scenario planning method to construct scenarios for the SCS, with the dispute occurring within it consisting of a current geopolitical conflict that has a very uncertain future (Misalucha in Hiebert, Nguyen & Poling, 2014: 105). The way that the SCS dispute evolves will have far-reaching consequences for both Southeast Asia and the USA, with the dispute having increased in intensity since 2010 (Rachman, 2015: 38). This uncertainty makes the SCS a very uncertain and potentially volatile political environment for corporations to operate in. Thus this study provides insights into how the dispute may develop over the timeframe and how the scenarios may impact Exxon Mobil, which has already contended with political risks to their operations (Hayton, 2014: 141). This is significant as the findings on the political risks deriving from the scenario planning could inform Exxon Mobil and potentially other oil and gas corporations on the risks that they may face in future and how they can mitigate them.

1.5 Research Design and Research Methodology

This study adopted a single case study research design. After having constructed the scenario planning method, the study employs the method in an individual context as a means of testing the method in a political environment that contains considerable uncertainty about the way it may develop. For this reason, the SCS dispute provides a useful context in which the scenario planning method can be applied as a tool for risk mitigation. Single case studies provide what Geertz (1973) would call a "thick description" (Geertz, 1973: 6-7), or a detailed empirical account, into how scenario planning can be used as a tool for risk mitigation, using Exxon Mobil's operations in the SCS as the single case study. A single case study research design is deemed most appropriate for this study as the design "is useful when detailed knowledge is required of any particular case" (Hofstee, 2006: 123). Accordingly, scenarios for the SCS can only be developed by acquiring such detailed knowledge. Walton (1992) argued that case studies are also effective in questioning established boundaries and thus enable new or alternative ways of thinking (Walton, 1992: 129), which this study endeavours to do. It must also be noted that in accordance with case study design, the results of this study are not generalised, but only applicable to the SCS dispute.

Therefore, this study's methodology can be described as utilising qualitative research. This accounts for the purpose and nature of this study, as Lincoln and Guba (2000) argue that it endeavours to "study things in their natural settings, attempting to make sense, or to interpret, phenomena in terms of the meanings people bring to them" (Lincoln & Guba, 2000: 3). This description of qualitative methodology links to the empirical nature of this study, as the research problems and research objectives derive from the observation of phenomena (Penn State University, 2017), notably the unpredictability of the international political environment and how that unpredictability impacts on corporations operating within uncertain political environments. This lends credibility to the usage of a single case study in this study, as it consists of "an in-depth study of a particular research problem rather than a sweeping statistical survey or comprehensive comparative inquiry" (Anastas, 1999: 94). In order to answer the research questions, notably in the case study, the study collects and utilises qualitative and quantitative data, making the method constructed in the study a mixed method (Creswell, 2013). Neuman described qualitative data as being "expressed in words", while quantitative data are "expressed in numbers" (Neuman, 1997: 7). Lastly, this study did not require ethical clearance since ethical considerations for this study are minimal to none. In future research the method can be applied to other cases. In Chapters Two, Three and Four the study primarily utilises secondary sources such as journal articles, books and internet articles either discussing or analysing theories and issues relevant to the construction of the method itself and the case study (University of Victoria, 2017).

The purpose of this study is to facilitate both exploratory and explanatory research into scenario planning and risk management. The study is exploratory because, while it addresses topics with considerable bodies of literature written on them, using scenario planning as a tool for political risk mitigation represents an attempt to "develop techniques and a sense of direction for future research", which Neuman argued is an important element of exploratory research (Neuman, 1997: 20). This sheds light on the inductive nature of the study, as it uses observations on the obstacles that corporations face in the global political environment to construct an alternative method to use scenario planning for risk mitigation (Trochim, 2006). The explanatory element of the study explains how and why scenario planning can be used as a tool for risk mitigation. Explanatory research seeks to "advance knowledge about an underlying process" (Neuman, 1997: 21), such as determining how understanding a corporation's environment and how it may develop through scenario planning can inform it on the political risks that it may experience and how to mitigate them. Furthermore, explanatory research seeks to "link different issues or

topics under a common general statement" (Neuman, 1997: 21). As noted in the primary research question, the study links scenario planning and political risk management in order to construct a method in which scenario planning can be used in order to identify and mitigate political risks within environments.

1.6 Limitations and Delimitations of the Research Study

A limitation for this research is that both political risk and scenario planning lack a central definition. The various authors have defined political risk and scenario planning differently, which means that it is necessary to take several definitions into account. A similar limitation applies to the conceptualisations of geopolitics. The concept of geopolitics has undergone significant changes in terms of its focus since the 1990s, with a newer post-modern conceptualisation challenging classical understandings of geopolitics. A third limitation on this study is that the timeframe for the case study in the SCS is 1 February 2017 to 1 February 2018 with the information-gathering stage having ended on 31 January 2017. It must be noted that as the information-gathering stage ended on 31 January, it cannot incorporate information on subsequent events into the case study which could impact the scenarios. It must also be noted that information on Exxon Mobil's interests and goals in the SCS is scarce. Thus the study, using articles and information discussing Exxon Mobil's operations in the SCS, formulates a list of interests in lieu of an official declaration of Exxon Mobil's goals for operations there. Furthermore, the method utilised in this study is not described solely as a method for political risk management but also as a scenario planning exercise. While political risk analysis is implemented at the end of the method, the scenario planning remains a crucial element of the method. Lastly, it must be noted that the method constructed in this study uses scenario planning as a tool for risk mitigation for a single corporation and does not focus on identifying political risks and mitigation strategies for the environment as a whole.

1.7 Chapter Outline for the Research Study

Chapter Two first discusses the theoretical approaches of problem-solving and decision-making theories as they provide the rationale for scenario planning and political risk analysis. Scenario planning, political risk analysis, political-security risk, political risk and political risk mitigation are discussed and conceptualised for the purposes of the study. Furthermore, the classical and post-modern conceptualisations of geopolitics are explained and defined.

Chapter Three explains how the method works by discussing each of its six steps. The chapter first explains how the method was structurally inspired by Frans Cronje's scenario planning method and describes the additions and changes that must be made to it, given that this method utilises scenario planning to facilitate risk mitigation. The purpose of the first two steps is to compile and organise relevant information, be it information on the corporation or information on the environment that the method is being implemented for. Steps Three and Four use the information collected in the preceding steps to identify trends and key driving forces in order to make building the scenarios possible. The final two steps concern building and explaining the scenarios and using them to identify, explain and mitigate political risks. In explaining these six steps, the study answers the primary question and the first sub-question in that a method using scenario planning for political risk mitigation has been constructed.

Chapter Four applies the method to the case study of Exxon Mobil's operations in the SCS, thus answering the final two sub-questions. The first two steps are focused on information gathering on Exxon Mobil and on the SCS region and the dispute. The next two steps analyse that information to identify relevant trends and driving forces; this analysis is used in the last two steps to chart how the dispute may evolve over the next year, enabling the method to identify risks and mitigation strategies. The outcome of this step is that the scenario planning will have identified and analysed political risks for Exxon Mobil for the next year and provided risk mitigation strategies to address them.

The fifth and final chapter outlines the progress of the study, explains how the study answered the research questions, reviews the study and provides recommendations for future research.

1.8 Conclusion

This chapter has explained what the study seeks to accomplish. It has provided a contextual background, explored the literature that has been utilised and formulated the research questions and problems that motivate the development of the scenario planning method. The objectives and significance of the study have also been explained. The study aims to explore how scenario planning can be used as a tool for political risk mitigation and apply this method to Exxon Mobil's operations in the SCS in order to test the method. Chapter Two lays the foundation for the method by explaining and conceptualising the various theories and terms that the study utilises.

Chapter Two: Theoretical Perspectives and Conceptualisations

2.1 Introduction and Aims of this Chapter

Rapid and unexpected developments which have occurred in the global political arena over the last 30 years have resulted in a more unpredictable global environment (Sottilotta, 2013: 3). Terrorist attacks, geopolitical conflicts as well as the increasing importance of sub-national actors such as multinational corporations have resulted in a more fluid and uncertain global environment (Sottilotta, 2013: 3; Toksoz, 2014: 28; Solberg, 1992: 130). This has led to actors such as multinational corporations facing ever-present and evolving political risks to their operations as they face more politically-related obstacles and constraints to operating within a state or region (Toksoz, 2014: 103). These obstacles for sub-national actors have made scenario planning and political risk analysis more important and necessary than ever in order to navigate this more unpredictable global environment. However, facilitating a more complete understanding of how these fields can help corporations and organisations to navigate the global environment requires more than an understanding of scenario planning and political risk analysis and mitigation. Both fields derive their rationales from problem-solving and decision-making theories. These theories explain how humans process their environment and assess the problems and risks within it, and this is exactly what scenario planning and political risk analysis do.

This chapter firstly explains problem-solving and decision-making theories, conceptualises them for the purpose of this study and explains how they are related to scenario planning and political risk analysis. This enables a more in-depth understanding of what scenario planning and political risk analysis are meant to accomplish. The various explanations of scenario planning are then explored, with a central conceptualisation being constructed using the works of the various authors of in this field. Political risk, political risk analysis, political-security risk and political risk mitigation are subsequently explained and conceptualised, again with the conceptualisations deriving from the various items of literature on political risk. The explanations of these two fields provide the necessary theoretical background for the construction of the scenario planning method developed in Chapter Three and applied to the SCS case study in Chapter Four. Lastly, the classical and post-modern conceptualisations of geopolitics are explored, with their respective understandings of geopolitics factoring into the construction of its conceptualisation for this chapter. This section is crucial for understanding the political environment to which the method is applied to in Chapter Four.

2.2 Problem-solving and decision-making theory

Problem-solving theory states that humans exist within environments, and human perception of and behaviour within these environments is influenced by the problems that exist within them (Simon & Newell, 1970: 148). Hayes (1989) argues that the problem-solver seeks to transform an existing situation into one with a more positive outcome within their environment (Hayes, 1989: 2). In order to understand how problem-solvers try to accomplish this, Simon (1956) points out that the problem-solving process involves an understanding of three factors: the type of task to be completed in the environment, the features of the environment, and the cognitive factors influencing the problem-solver (Simon, 1956: 133, 138). Pertaining to Simon's first factor, within each environment there exist problems that the problem-solver attempts to address in order to achieve the positive outcome that Hayes mentioned by formulating strategies to solve the problems (Simon & Newell, 1970: 149). Jonassen (1997) states that problems are unknowns that exist within a domain and require a solution (Jonassen, 1997: 66). Thus understanding and solving these problems is the task to be completed within the domain (Campitelli & Gobet, n.d.). The domain is also referred to by Simon as an "environment" (Simon, 1997), and solving problems require an understanding of both the environment and the problem (Jonassen, 1997: 66). VanLehn (1989) corroborated this by arguing that problem-solving requires understanding the initial problem and conducting tests to determine solutions to the problem (VanLehn, 1989: 7).

Strategies and solutions that are formulated to address problems within the environment are often affected by the state of the environment itself (Campitelli & Gobet, n.d.), which addresses Simon's second factor. Simon (1956) argues that the environment's complexity affects the way that humans make decisions (Simon, 1956: 131), with this complexity stemming from the amount and quality of information that is available within the environment, with a dearth of information making decision-making more difficult (Campitelli & Gobet, n.d.). This links Simon's second and third factors in problem-solving as the features of the environment affect the cognitive processes used by problem-solvers to understand them. In order to solve a problem within an environment, a representation of the problem needs to be developed within the problem-solver's mind (Kotovsky, Hayes & Simon, 1985: 248), containing a description of the environment, actions for addressing the problems and implementing tests in order to determine if the actions have been successful (Simon, 1997). These representations in the problem-solver's mind are influenced by the fact that the problem-solver's rationality is bounded (Simon, 1956: 129). This bounded rationality occurs when problem-solvers pursue

merely satisfactory solutions as opposed to maximally beneficial ones because a lack of information on the environment that results in a vaguer representation of the problem (Simon, 1956: 129; Davidson & Sternberg, 2003: 11). As mentioned earlier, Hayes (1989) states that problem-solvers try to solve problems in order to achieve a more beneficial outcome, but Simon argues that this is not always possible, as problem-solvers often aim merely for adequate results due to their own cognitive limitations and the complexity of the environment (Simon, 1956: 129, 131). The presence of information is therefore an important factor in the cognitive processes utilised in problem-solving, as processing information about the environment is crucial in understanding the nature of the problems (Simon & Newell: 1970: 157).

This emphasis on information underlines the significance of uncertainty and risk. Uncertainty is defined by Holton as the state of not knowing whether a proposition is true or false (Holton, 2004: 21). This is supplemented by Riabacke (2006), who said that uncertainty exists "where actions may lead to a set of consequences, but where the probabilities of these outcomes are completely unknown" (Riabacke, 2006: 1). Within a specific environment, uncertainty manifests itself in a lack of knowledge about the variables within the environment (Rueter, 2013). Relating this to problem-solving, Davidson and Sternberg (2003) argue that the success of problem-solving is dependent on reducing uncertainty by collecting and analysing information (Davidson & Sternberg, 2003: 4).

Risk was described by Bremmer and Keat (2009) as "the probability that any event will turn into a measurable loss" (Bremmer & Keat, 2009: 4). This means that risk is an omnipresent factor when making decisions within an environment and as such it influences the behaviour of decision-makers (Beresford & Sloper, 2008: 15). Holton further states that risk is "exposure to a proposition of which one is uncertain," combining the variables of exposure to events in which the actor has a personal stake and the uncertainty regarding how those events will develop (Holton, 2004: 22). The relationship between risk and uncertainty is discussed by Sharon Gifford (2010), who explains that "the entrepreneur is often seen as bearing the risks implied by the uncertainty of the future outcomes of his or her decisions", inferring that risks may emanate from uncertainty (Gifford in Acs & Audretsch, 2010: 304). However, a primary difference between risk and uncertainty is that risks contain information on these variables that Holton mentioned, with Frank Knight (1921) arguing that the difference between risk and uncertainty is that risk is measurable due to this information being available (Knight, 1921: 22). Risk can therefore be described as uncertainty where the potential outcomes are known in

advance, whereas genuine uncertainty exists when the outcomes as well as their probabilities are unknown (Kastelle, 2013).

Risk plays an important role in rational decision-making theory, as it influences the way that actors make decisions. According to Oliveira (2007), rational decision-making entails decision-makers constructing variations of scenarios for an environment that contain probabilities for the outcome sought by the decision-maker occurring (Oliveira, 2007: 12). The decision-maker subsequently chooses the scenario with the highest probability for the preferred outcome to occur (Oliveira, 2007: 13). Neumann and Morgenstern (2004) argue that the outcome preferred by the decision-maker is the one with the highest expected utility (Neumann & Morgenstern, 2004: 20). However, choosing the outcome with the highest expected utility is not a simple matter, as decision-making theory accounts for the presence of risk. Kahneman and Tversky (1979) argue that risks impact on the potential gains and losses that the decision-makers might incur if they make a particular decision (Kahneman & Tversky, 1979: 263), and risks are present within the scenarios constructed by the decision-maker. Decision-makers perceive which options contain more risk versus less risk, and assess how the risks may affect their eventual gains and losses (Kahneman & Tversky, 1979: 263-264). These perceptions derive from both rational and less rational cognitive processes, with rational processes including calculations and less rational processes including hope (Zinn, 2008: 2). Perceptions may lead to what Kahneman and Tversky call "risk averseness," or the avoidance of decisions that contain more risks (Kahneman & Tversky, 1979: 263).

The principles of problem-solving and decision-making theory provide a foundation explaining the rationale and purpose of scenario planning and political risk management. Both problem-solving and decision-making theories explain how actors perceive their environment and identify the problems and risks within it. Problem-solving theory notably achieves this by exploring the environment and addressing problems and risks by developing an understanding of them, thus enabling a solution to be developed. As stated earlier, problems were described by Jonassen (1997) as unknowns that exist within an environment and require a solution (Jonassen, 1997: 66). The rationale of problem-solving underpins the rationale of scenario planning as scenario planning focuses on identifying and understanding uncertainties within an environment in order to construct scenarios for the environment and use the scenarios to inform future behaviour in order to manage the uncertainties (Ringland, 1998: 96-97 ; Bacon, 2012: 271). Thus it also focuses on identifying and understanding problems within an

environment and uses that understanding to solve the problem. Furthermore, scenario planning provides insights into the risks that an actor may experience within the environment, with the scenarios communicating how changes within the environment may have an impact on the actor (de Geus, 1988), thus also affecting the potential gains and losses that the actor may incur given the scenarios. Problem-solving and decision-making theory also provide a foundation for the rationale of political risk management. Political risks are "political decisions, events, or conditions within a country" that may have an influence on corporations operating within a country or region (Howell & Chaddick, 1994: 71). These risks constitute problems within the environment as they contain uncertainty and require a solution, and political risk management includes the mitigation of these risks through prescribing strategies to decrease the likelihood and impact of the risks (Bremmer & Keat, 2009: 195). Political risk management thus also identifies problems within an environment and seeks to identify a solution to the problem.

2.3 Scenario Planning

While scenario planning emerged as a tool for constructing potential futures in the 1970s after the OPEC oil embargo (Shell, 2008), the field experienced a general lack of support in the 1980s as it was perceived to not have much relevance (Ringland, 1998: 3). However, since events such as the 9/11 terrorist attacks in September 2001, scenario planning has regained relevance because of the increasing uncertainty in the global environment (Illbury & Sunter, 2011: 2). With subsequent destabilising events such as the 2008 financial crisis, the international environment has become an increasingly unpredictable one (Bremmer, 2015: 10). This has made scenario planning more valuable as corporations and organisations operating in uncertain and unstable environments can find value in constructing potential futures that can be used to inform their behaviour. This makes it all the more important that the method constructed in this study uses scenario planning to anticipate political risks.

Williamson (1999) argues that "in the face of uncertainty and rapid change, companies must reengineer their strategy processes to create a portfolio of options for the future and integrate planning with opportunism" (Williamson, 1999: 117). Scenario planning is a viable tool to achieve this by constructing various potential stories that are developed from information, events and trends occurring within the relevant environment (Ringland, 2006: 4). Trends specifically refer to "deeper" changes and patterns, which mean that they are more significant and deep-rooted than mere "fads" (Lindgren & Bandhold, 2003: 56). The Monitor Group

supplements Ringland's definition by explaining that scenario planning "provides a means for ordering perceptions about how the future may play out and determining what strategic decisions today offer the best chance of success tomorrow" (Monitor Group, 2008). Ringland (1998) argues that scenario planning orders these perceptions by using methodologies to identify uncertainties and patterns within the environment which can enable the actor to assess risks in the future (Ringland, 1998: 96-97).

Scenario planning is utilised by a wide range of actors, from governments to corporations, and has been used to prepare these actors for interactions with uncertain and unpredictable environments (Ringland, 1998: 18, 32). This includes environments with social unrest, a history of violence and unstable economic environments (Ringland, 2006: 21). Despite common perceptions regarding scenario planning utilising forecasting, Lindgren and Bandhold (2003) state that a scenario is not a forecast, but rather it is an answer to the questions asking what would happen or what could happen if a certain variable changed (Lindgren & Bandhold, 2003: 21). Schoemaker (1995) provided a practical example of a mountaineer who planned for various uncertainties such as terrain, weather and wild animals and how such factors could impact their climb (Schoemaker, 1995: 27-28). From an understanding of the uncertainties and trends, driving forces that "move the plot" of the scenario and influence what may happen can be identified and used to build the scenarios themselves (Schwartz, 1991: 107). This summarises the first element of scenario planning, which concerns understanding the uncertainties within the environment and how they may develop. The second element of scenario planning concerns using the scenarios as a platform for future strategy and behaviour (Lindgren & Bandhold, 2003: 7). An example of a method used to satisfy the second element is the Observe, Orient, Decide, Act (OODA) loop, which uses observations to make decisions within the environment and then implement a response to the risks and opportunities within it (Lindgren & Bandhold, 2003: 6-7). Scenario planning is most effective when it is used to shape future behaviour such as policy responses and responding to opportunities and threats (Bacon, 2012: 271 ; Lindgren & Bandhold, 2003: 8-10).

In order to satisfy both of the elements of scenario planning discussed above, Schoemaker stated that scenario planning can be implemented through scenario planning methodologies that establish and utilise a framework by which information can be collected, trends can be identified and scenarios can be constructed through a specific process (Schoemaker, 1995: 27). For example, General Electric used a scenario planning method from the 1960s to the 1980s in

order to help them prepare for environmental factors that would affect their business (Ringland, 1998: 18). The method that they utilised entailed compiling relevant information, identified key indicators, isolated trends within these indicators and fleshed out potential future events (Ringland, 1998: 18).

2.4 Political Risk and Political Risk Analysis

The field of political risk analysis evolved in the 1970s as a consequence of the increasing interference of politics-related factors in commercial enterprises (Kobrin, 1978: 2). Since then, increasing uncertainty in the international political arena, brought about primarily by evolving geopolitical tensions and the growing power of non-state actors such as terrorist groups, have ensured that the field has remained highly relevant (Bremmer & Keat, 2009: 2-3). Despite this, the need to identify political risks is often underestimated by businesses, which have overlooked the impacts that political events may have on their operations in a state or region (Bremmer & Keat, 2009: 2). With the arrival of what Ian Bremmer has called the "geopolitical recession" in 2017, or uncertainty regarding the sustainability of the existing global power structure, further instability is likely (Bremmer in Eurasia Group, 2017), thus highlighting the important role that the identification and analysis of political risk continues to play.

Although the conceptualisation of political risk has evolved since the 1970s, the foundation constructed by Robock (1971) and Kobrin (1978) is still relevant. Kobrin (1978) stated that fluctuations in the political environment can have a negative knock-on effect on the business environment, often deriving from political interference and resulting in changes in contracts and the confiscation of foreign-owned property (Kobrin, 1978: 4). Robock (1971) argued that uncertainty in political environments make political risks difficult to anticipate and prepare for (1971: 7). He further stated that political uncertainties take the form of a risk when these uncertainties could impact on the corporation's profit or other goals (Robock, 1971: 7). Political risks are segmented into two types: micro and macro political risks (Robock, 1971: 9-10). Micro political risks consist of the negative constraints which impact only on certain industries or corporations, while macro risks impact on all foreign corporations in an environment (Robock, 1971: 9-10). A newer conceptualisation of political risk, provided by Brink (2004), emphasises the importance of varied social, political and economic factors by stating that political risk derives from the way that interrelated factors associated with government behaviour and policy may have a negative impact on businesses and investment

environments (Brink, 2004: 25). This signalled a shift away from the economics and politics-focused understanding of political risks by including a more socio-political focused conceptualisation. Howell and Chaddick's (1994) conceptualisation follows this trend, as it defined political risk as "the possibility that political decisions, events, or conditions in a country, including those that might be referred to as social, will affect the business environment such that investors will lose money or have a reduced profit margin" and they also described political risks as being relevant for both domestic and foreign investors (Howell & Chaddick, 1994: 71). Root (1972) notably identified the need to transition "a political uncertainty into political risk" (Root, 1972: 57), thus identifying the "political decisions, events, or conditions in a country" and understanding how these may impact on corporations' operations (Howell & Chaddick, 1994: 71). This sheds light on the relationship between political risk and uncertainty. According to Kobrin (1978), political risks are at least measurable with regard to the way they impact on individual or multiple actors (Kobrin, 1978: 8-9). Kobrin further argues that political risk relies on information to enable the political issue to "bridge the gap" from constituting an uncertainty to constituting a manageable risk (1978: 9).

The primary means to facilitate this bridging of the gap is through political risk analysis. Bremmer and Keat (2009) describe political risk analysis as determining "how, when and where" political risks occur (Bremmer & Keat, 2009: 69). Robock (1971: 8) argues that political risk analysis is meant to understand the political risks that may exist within the environment as well as develop in the future. Toksoz (2014) builds on Robock's conceptualisation by stating that political risk analysis entails the identification and analysis of risks in order to determine their severity (Toksoz, 2014: 159). This understanding of political risk analysis is echoed by Phillips (2006), who observed that political risk analysis largely has consisted of companies identifying risks and making decisions to mitigate them (Phillips, 2006). Political risk analysis has also contained elements of scenario planning, as Bremmer and Keat (2009: 3) stated that political risk analysis uses forecasting in order to identify political risks. Another example of political risk analysis utilising scenario planning was identified by Zonis et al. (2011), who mentioned PRS analysing regime change in a country or region and using that analysis to speculate about future regime change (Zonis, Lefkowitz, Wilkin & Yackley, 2011: 76).

There are several methods by which political risk analysis has been implemented. These methods have taken qualitative, quantitative and mixed forms (Toksoz, 2014: 148). Examples

of quantitative methods of political risk analysis are the Country Risk Model, utilised by The Economist Intelligence Unit (EIU), the BERI model and the PRS model (Howell & Chaddick, 1994: 71). However, many quantitative methods such as the one used by the EIU utilise qualitative variables such as bad neighbours and corruption, for example, as inputs for their model (Howell & Chaddick, 1994: 76). Political risk analysis can also utilise more qualitatively-based methodologies. Brink (2004) compiled an exhaustive list of potential political risks which could pinpoint the potential risks that actors may experience in a country or region (Brink, 2004: 2). Although Brink's own method, as well as other methods such as the BERI method can be described as using a mixed method where qualitative and quantitative elements are used (Howell & Chaddick, 1994: 79), the qualitative aspects remain crucial.

2.4.1 Political-Security Risk

The nature of the international political arena since the early years of the 21st century has reflected an increased emphasis on the impact of security threats (Moore, 2014), with political risks such as terrorism becoming much more prominent (Lambrechts & Blomquist, 2016: 1). Thus within the broad notion of political risk, there are specific types of political risks which can be classified in more detail. Political-security risk is one such classification. Fouche (2003: 18) defined political-security risks as "those vulnerabilities that flow from political risks (policy responses to security threats) that are found in a specific country". Fouche mentioned unpopular legislation influencing political unrest, labor action and terrorism as examples (Fouche, 2003: 18). Providing more depth to Fouche's definition are Lambrechts, Weldon and Boshoff's (2010) levels of political-security risk, namely transnational security, national security and human security (Lambrechts, Weldon & Boshoff, 2010: 111). Transnational security focuses on security challenges that may impact on actors within a region and may include terrorism, inter-state war and border/territory disputes (Lambrechts, Weldon & Boshoff, 2010: 111). National security refers to the state of the integrity of state borders against external threats, the maintenance of political order and adherence to the state constitution, the promotion of important national values as well as the protection of national values and interests (Lambrechts, Weldon & Boshoff, 2010: 111). Human security focuses on the security of human beings; this includes human rights violations, political discrimination and violence resulting from ethnic/religious conflict (Lambrechts, Weldon & Boshoff, 2010: 111). While these three levels may appear to differ, they also can affect one-another.

2.4.2 Political Risk Mitigation

According to Bremmer and Keat (2009), mitigating political risks involves both reducing the likelihood of the risks occurring as well as decreasing the impact of those risks (Bremmer & Keat, 2009: 195). This can be directed towards addressing various types of risk factors, including terrorism, bribery, detrimental political connections of the corporation and breaches of contract (Gale, 2008). Rajwani (2011) explains that risk mitigation consists of steps that can be taken to decrease the probability and negative impact that political events can have on a corporation (Rajwani, 2011). To be more accurate, risk mitigation requires an understanding of the environment in which it is being implemented (Bremmer & Keat, 2009: 191), making risk mitigation possible only after information on the environment has been collected and analysed.

Rajwani (2011) and Bremmer and Keat (2009) offer examples of political risk mitigation strategies that corporations can use in order to avoid incurring negative impacts. Political risk insurance is an option which indemnifies the corporation against the losses that they might incur because of the risk (Bremmer & Keat, 2009: 192). Rajwani states that insurance is best used as a fail-safe, and its reactive nature means that the corporation would need to face damages from the risk before the insurance becomes relevant (Rajwani, 2011). A more proactive means of risk mitigation is to avoid regions or countries with an unacceptable degree of political risk (Rajwani, 2011). Corporations have also used risk scoring systems and employed risk officers to gauge the level of political risk in an environment (Rajwani, 2011).

Aside from those risk mitigation strategies, Bremmer and Keat (2009: 195) describe four strategies of their own for risk mitigation: minimise the likelihood of the risk occurring, eliminate the threat, isolate the threat and avoid the risk. Defining these strategies is important as they will inform potential mitigation strategies utilised by the method constructed in this study. Minimising the likelihood entails taking actions which would decrease the probability of the risk impacting negatively on the corporation (Bremmer & Keat, 2009: 192). Eliminating the threat entails taking steps to remove elements which could create or exacerbate risks (Bremmer & Keat, 2009: 192). Isolating the risk, although not defined by Bremmer and Keat, appears to mean identifying individual risks and either minimising their likelihood or eliminating them (Bremmer & Keat, 2009: 192). The final strategy is risk avoidance, which entails not developing strategies to address the risk in the belief that the risk will not have a negative impact on the corporation if it is ignored (Bremmer & Keat, 2009: 193).

It is also necessary to clarify the difference between political risk mitigation and political risk management. According to Culp (2012), risk management takes place after political risks have been identified and measured, with the aim being to address identified risk factors through multiple options (Culp, 2012). Peter Bernstein says that the "essence of risk management lies in maximising the areas where we have some control over the outcome while minimising the areas where we have absolutely no control over the outcome and the linkage between cause and effect is hidden from us" (Bernstein, 1996: 197). Bernstein further explained the function of risk management as identifying where uncertainties can be most likely managed, understanding the repercussions of the uncertainties within the environment and using this understanding to inform decision-making (Halbert Hargove Global Advisors, 2007: 2). For the purposes of this study, risk management consists of the analyses of risk factors as well as the formulation of risk mitigation strategies, thus serving as an umbrella term for political risk analysis and mitigation.

2.5 Geopolitics

International politics in the 21st century, as in centuries past, has been characterised by cooperation and competition between states over geographical features such as territory, natural resources and strategically important areas (Toksoz, 2014: 105). Control over territory and its connection to the power and prestige of a state has remained a constant in international politics (Scholvin, 2016: 8). Nicholas Spykman states that "ministers come and go, even dictators die, but mountain ranges stand unperturbed" (Spykman, 1942: 41). This statement highlights the everlasting sustainability and importance of natural features. Before delving into how geopolitics has been conceptualised, it must be noted that geopolitics itself is not a theory, but rather entails explanations of "general patterns and long-terms processes" related to political relations over physical space (Scholvin, 2016: 4).

According to Agnew (2003), the traditional understanding of geopolitics, referred to as classical geopolitics, analyses the relationship between states over geographical features and areas (Agnew, 2003: 3, 82). More specifically, classical geopolitics examines how states interact with one another, be it in a more cooperative or competitive manner, over physical space (Scholvin, 2016: 6). This physical space can consist of territory as well as specific geographical features such as mountains or bodies of water (Scholvin, 2016: 6), and control

over this physical space is useful in charting the rise and fall of geopolitical powers (Toksoz, 2014: 104). Location and physical geography can play a role in determining the power of a state, the security of a state and its motivation and capacity for potential expansion, with military force being a primary tool for enforcing geopolitical power (Scholvin, 2016: 14). However, developments in the global environment have led to other factors such as technology, global power structures and economic indicators being increasingly recognised as important factors in geopolitics alongside the elements of classical geopolitics (Agnew, 2003: 118). This represents a shift in focus on what geopolitics entails since the end of the Cold War, where an increase in globalisation and the influence of market forces have expanded the scope of geopolitics beyond its classical conceptualisation as an inter-state political phenomenon (Luke in Agnew, Mitchell & Toal, 2003: 228). Agnew described this more recent understanding as post-modern geopolitics (Agnew, 2003: 118), and this study incorporates post-modern geopolitics and classical geopolitics into the overall conceptualisation of geopolitics.

Post-modern geopolitics is more complex than classical geopolitics in that geopolitical security is determined beyond military power (Tuathail in Tuathail, Dalby & Routledge, 1998: 1). The role and importance of geopolitics has expanded beyond military interests and conflicts as it also involves actors interacting with each other within economic environments (Agnew, 2003: 118), which may include non-state actors such as multinational corporations (Behrendt & Khanna, 2003). Economics has therefore become a crucial element of geopolitics (Tuathail in Tuathail, Dalby & Routledge, 1998: 1). Luttwak (1990) stated that "the methods of commerce are displacing military methods with disposable capital in lieu of firepower, civilian innovation in lieu of military-technical advancement, and market penetration in lieu of garrisons and bases" (Luttwak, 1990: 125). This has resulted in non-state actors such as multinational corporations becoming more important geopolitical actors because of their increasing role within the global political economy (Luttwak, 1990: 129).

Classical and post-modern geopolitics are important in scenario planning and political risk analysis, and are therefore important elements in the method constructed by this study. As scenario planning must identify trends and key driving forces when constructing scenarios, the presence of geopolitical cooperation and competition, both of a classical and post-modern nature, can formulate important insights into the trends and key driving forces where relevant. Furthermore, while geopolitics itself may not constitute a political risk, it is a dynamic which can explain potential risk factors. Examining trends in the geopolitics of a region can aid in

charting how those risks may impact on a corporation. An example of geopolitics being utilised for both scenario planning and political risk analysis is Shell's scenario planning approach which developed from 1945 to 1980, during which the scenario planning method incorporated geopolitical risk analysis in the late-1970s (Ringland, 1998: 20).

2.6 Conclusion

This chapter sought to identify central themes of the concepts and theories used in this study. After exploring decision-making and problem-solving theories and establishing their connections to scenario planning and political risk analysis, the chapter explained the purpose and content of both scenario planning and political risk analysis, which provide the theoretical foundation to build the method in Chapter Three. Establishing the linkage between those two theories and scenario planning and political risk provides the primary rationale underpinning the scenario planning method as explained in Chapter Three, thus enabling the study to answer the primary research question and the first research sub-question. With scenario planning and political risk analysis explained, more specific elements of political risk management, namely risk mitigation and political-security risk, were conceptualised. Lastly, classical and post-modern geopolitics were explored in order to understand the prevailing political environment, which is especially relevant for the SCS case study explored in Chapter Four.

Chapter Three: The Scenarios-based Risk Mitigation Method

3.1 The Scenario Planning Method Constructed in this Study: An Introduction

The previous chapter established that the capacity for problem-solvers to provide viable solutions is affected by their understanding of the environment and the problems that prevail within it (Kotovky, Hayes & Simon, 1985: 252-253). Understanding the environment can provide insights into the nature of the uncertainties within it (Kotovsky, Hayes & Simon, 1985: 251). This understanding is useful in "bridging the gap" between uncertainty and risk by providing the actor as a decision-maker with information on the uncertainties, thus providing insights into the risks within the environment and how those risks may influence the potential gains and losses that they may incur (Kobrin, 1978: 9; Kahneman & Tversky, 1983: 342). This highlights the utility of scenario planning to be used as a tool for political risk mitigation, as Maack (n.d.) argues that this understanding of the environment enhances the comprehension of the uncertainties within it and thus enables decision-makers to anticipate and manage risks, which include political risks. This function has increased the relevance of scenario planning in the current political and economic environment, as Lindgren and Bandhold (2003) argue that managing the uncertainties of the future allows the actor utilising the scenario planning to "compete successfully in this endlessly changing world" (Lindgren & Bandhold, 2003: 4). Scenario planning achieves this through facilitating risk reduction and increasing certainty (Lindgren & Bandhold, 2003: 23), which is what the method constructed in this chapter intends to accomplish.

In order to enable corporations to achieve this political risk reduction, this chapter builds a scenarios-based risk mitigation method which utilises scenario planning as a tool to be used by corporations for political risk mitigation. Building this method answers the first research question: *How can an alternative scenario planning method be developed and used as a tool for political risk mitigation?* Using in particular Cronje's (2014) scenario planning method as a structural foundation for the scenario planning element of this method, the scenario planning method focuses first on establishing the scenario planning context, which is an important step in enhancing the perceptions of the decision-maker, challenging their initial, potentially biased perceptions of their environment (Thomas, 1994: 6). As a result of having defined the scenario planning focus, the method is able to collect and organise information on the environment as well as how factors within the environment may have impacted the corporation's operations. Using this information, trends are identified and analysed by recognising changes and patterns,

in this way identifying and explaining key uncertainties within the environment. As a result of decreasing uncertainty about the patterns within the environment, key driving forces that that influence the way that the environment may change over the scenario planning timeframe can be identified and explained. However, as the scenario planning is being implemented as a tool for risk mitigation for a specific corporation, it is necessary to identify how these key driving forces may affect the corporation. This is an important element of the method because it subsequently constructs a scenario matrix from the most uncertain and the most impactful driving forces. Having identified how these driving forces may impact the corporation, the method is able to utilise the scenarios constructed in order to identify political risk factors and prescribe risk mitigation strategies. Using the information on how the driving forces may affect the corporation and the scenarios to identify political risks and prescribe mitigation strategies enables the second research question to be answered: *How the method could relate the scenarios to the operations and interests of a corporation such that it could facilitate identifying and mitigating political risks relevant for the corporation?*

At the beginning of this chapter, Frans Cronjé's scenario planning method is introduced to serve as a structural foundation for this method. Additions to Cronjé's method are then identified and discussed given the different application of this method in this study compared to the method constructed by Cronjé. Each of the six steps[5] of the method are explained, discussing the purpose of each step, its content and what it adds to the method being discussed. After the steps are explained, a visual representation of the method is provided.

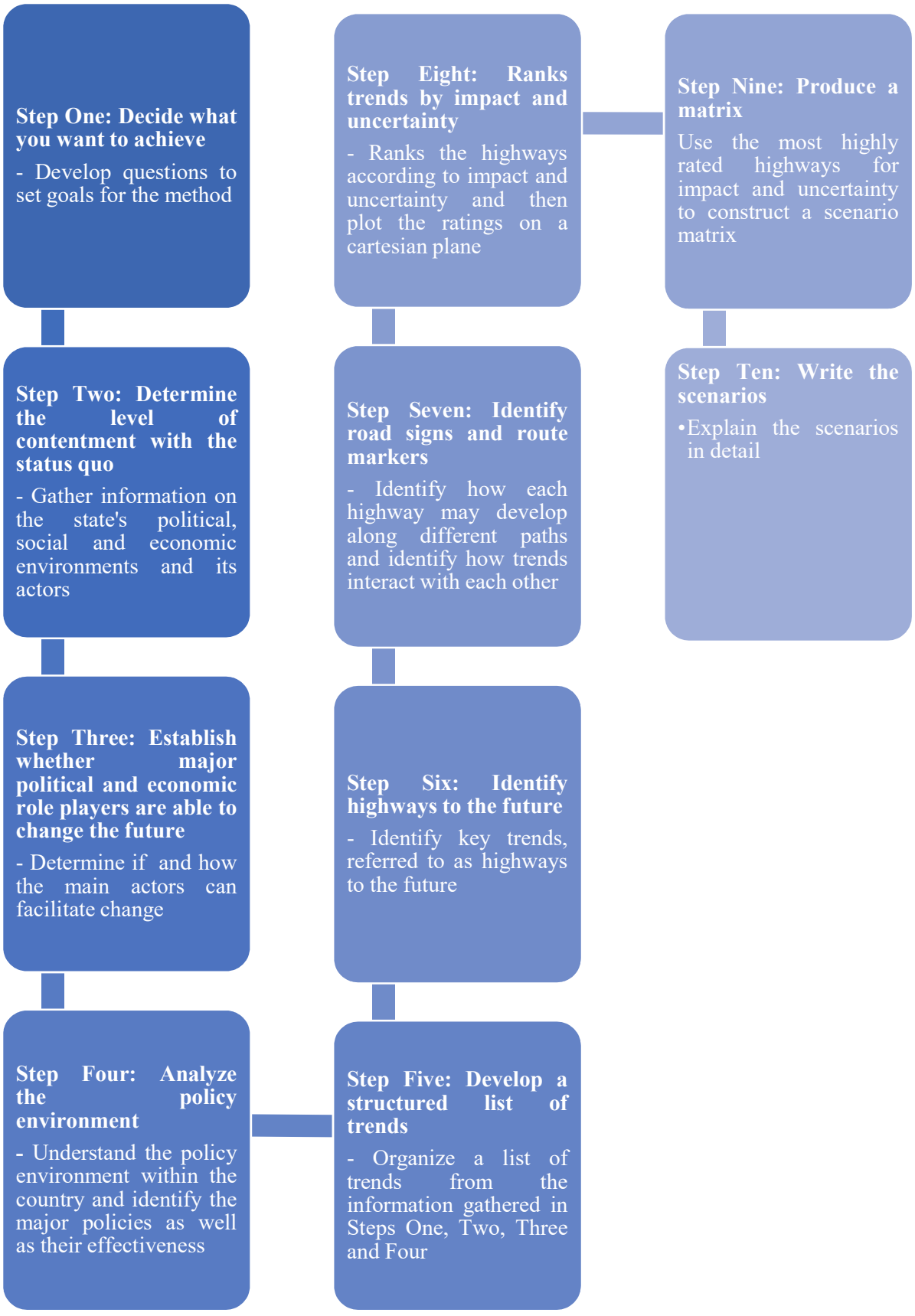
3.2 A Summary of Frans Cronjé's Scenario Planning Method

The objective of Frans Cronjé's method was to utilise scenario planning to construct four potential scenarios that South Africa might experience over the next ten years (Cronjé, 2014: 4-5). Cronjé applied this method to South Africa in 2014 because of its uncertain political future and sought to analyse the political, social and economic factors influencing that future (Cronjé, 2014: 4-5). Cronjé implemented a ten-step scenario planning method which collected information on South Africa in order to identify trends and key driving forces to create a scenario matrix (Cronjé, 2014: 45). This matrix was formed from the most impactful and uncertain key driving forces identified (Cronjé, 2014: 47).

[5] Steps in a scenario planning method are conceptualised as "a road map to steer along a complex and creative group process," segmenting the process of collecting and analysing information in order to identify and understand key uncertainties and thus construct scenarios (Schoemaker, 1993: 196-197).

Cronjé's scenario planning method serves as a structural foundation for the scenario planning element of the method constructed in this study because it focused on developing a thorough understanding of the scenario planning environment through information collection and analysis (Cronjé, 2014: 45-46). Using this information, Cronjé identified key driving forces within the environment and used them to develop a scenario matrix (Cronjé, 2014: 47-49). The ten steps of Cronjé's scenario planning method are visually represented in Figure 1 below. The emphasis on collecting and analysing information on the environment and using that analysis to inform the scenarios makes Cronjé's method an excellent tool for ordering the perceptions of the decision-maker, which is a crucial element of facilitating the identification and understanding of better informed scenarios (Wack, 1985b). In order to strengthen the method's capacity to develop the perceptions and scenarios, the chapter uses other scenario planning literature to provide further insights for the rationale of the steps as well as incorporating a means of organising and analysing information that was not utilised by Cronjé. As the method constructed in this study utilises scenario planning as tool for political risk mitigation, thus differing in purpose from Cronje's method, it is necessary to add elements enabling the scenario planning to be used for political risk mitigation. Whereas Cronjé utilised his method for constructing futures for the South African political, social and economic environment over ten years, this method constructs futures for a corporation in an environment over a timeframe and uses those futures to identify and mitigate political risks. Therefore while the method constructed in this study implements scenario planning, in order to facilitate political risk mitigation for a corporation, the process of information collection for the scenarios includes information and analysis of the corporation and their operations and interests within the environment. This element of the scenario planning draws on scenario planning literature from authors such as Schoemaker (1995) and Maack (n.d.) in order to enable the method facilitate this function. Thus the method outlined below incorporates the approaches of other authors in scenario planning and political risk management to answer the primary and first sub-research questions.

Figure 1: Frans Cronjé's Scenario Planning Method



(Cronjé, 2014: 45-49)

3.3 Scenario Planning: Introduction to the Practical Steps

3.3.1 Step One: Framing the Scenario Planning

In implementing scenario planning, it is important to compile and analyse information on the environment in order to build "fresh perceptions" in the mind of the corporation using the scenarios, which can eventually serve as a platform for decision-making to address the scenarios (Wack, 1985b). Cronjé's Step One facilitated the development of these fresh perceptions by setting the goals of the method through asking key questions about the environment (Cronjé, 2014: 45). Identifying the goals of the scenario planning is an important component in building this more inclusive mental model to incorporate these perceptions. These perceptions help to define the focus of the scenario planning, which is important as it establishes the key planning or decision issues that the scenario planning method should address (The Futures Group in Ringland, 1998: 223).[6] Given that the scenario planning method is being used to facilitate political risk mitigation, defining the focus involves not only defining the environment in which the scenario planning is being implemented, but also defining the corporation as well. Therefore this step differs in content from Cronjé's Step One. Defining the corporation specifically involves determining its nationality, the industry in which it operates in as well as its relationships with the country/countries in the environment (Alon & Herbert, 2009: 127). The information compiled in this step allows for the parameters of the scenario planning to be understood by identifying and providing a contextual background as well as identifying the corporation that the method is being implemented for by summarising its operations and interests.

Framing the Scenario Planning specifically develops this mental model by establishing the environment of the scenario planning, the identity and interests of the corporation and the timeframe of the scenario planning. This background to the environment consists of a brief summary of the political environment of the region or country as well as how this environment has impacted on the industry that the corporation operates in. This provides a context through which to introduce the corporation as well as provide a summary of its operations within the environment, assuming that it has been operating in that environment. Identifying the corporation and explaining its operations and interests is an important element of scenario

[6] Taken from Boroush, M & Thomas, C. 1992. Alternative scenarios for the Defense Industry after 1995. *Planning Review*. Vol. 20, No. 3: 24-29.

planning, as Schoemaker (1993) argued that incorporating this information on stakeholders within the environment who may be affected by the scenarios makes it possible to identify how the stakeholders may behave and be affected by the scenarios constructed (Schoemaker, 1993: 197). Therefore while providing a background to the corporation, their operations and interests enables the method to define the focus of the method, it also provides information that can be used in subsequent steps of the method to identify how the scenarios may introduce risks for the corporation, thus facilitating political risk mitigation. Given the established goals of defining the focus of the scenario planning, the elements of Step One are provided below:

- **Identification and Explanation of the Scenario Planning Context**: This provides a brief explanation of the environment in which the corporation is operating in or will operate in.
- **Corporation Profile**: A background on the corporation provides more in-depth information on what industry it is operating in and a brief history of its operations in the region, assuming it has have operated there before.
- **Corporation Interests**: This identifies corporation goals for its operations in the region, drawing on the Corporation Profile and the Scenario Planning Context.
- **Timeframe of the Scenario Planning**: This establishes the period of time that the scenario planning covers.

(This outline was constructed by the author for the purposes of this study)

This step is useful for establishing the parameters for the scenario planning, which is a necessary step in building the inclusive mental model necessary for proactively utilising scenario planning. This involves enabling the actor implementing the method to "recognise and react to environmental change before the pain of a crisis", which is important as corporations' decision-making processes "grow out of a company's knowledge of itself and its environment" (de Geus, 1988). This step is an important element in building that knowledge regarding the corporation and the environment. Having defined the environment that the method is being applied in and the corporation that the method is being applied for, a more expansive understanding of the environment and the corporation's and their industry's interactions with the environment can be obtained through information collected in Step Two.

3.3.2 Step Two: Compilation of Information

With the focus of the scenario planning having been defined in Step One, it is possible to collect more in-depth information on the environment and the corporation's involvement within it. In

the Second, Third and Fourth Steps in his scenario planning method, Frans Cronjé collected information on the social, political and economic environments within South Africa, identified the major role-players within those environments and discerned policies implemented within those environments (Cronjé, 2014: 45-46). The purpose of this information collection was to facilitate the identification of trends and key driving forces (Cronjé, 2014: 46). Step Two of the method constructed in this study combines Cronjé's three steps for the same purpose by compiling information on the environment, the important actors within the environment and important policies that they have implemented or may implement. The importance of identifying these factors was recognised by Wack (1985b), who argued that information collection is an important element in building scenarios, as it transforms "information of strategic significance into fresh perceptions" necessary to understand the forces driving the environment, build scenarios for it and relate the scenarios to the actor (Wack, 1985b).

The information collected in this step can be described as the external forces, which consist of "the social, economic, environmental, and political forces in society that are relevant to the topic of the scenario discussion but are outside of the participants' control" (Maack, n.d.). In order to identify these external forces, the step utilises the SEEPT (Social, Economic, Environmental, Political and Technological) Framework, which was first developed by Wilson (1998) and subsequently modified by Maack (n.d.)[7] as a means to compile and organise information before constructing scenarios (Maack, n.d.). The method specifically utilises the SEEPT Framework because it is "an efficient way to obtain a holistic view of the many forces that will affect a project's success" (Maack, n.d.). In segmenting the information under the SEEPT headings, the method avoids presenting the information in a disorganised, confused fashion. In order to provide as broad as possible a base of information that can be utilised to identify trends, to isolate key driving forces and eventually to build the scenarios, the method includes a Legal variable after the Technological variable[8]. This is especially important as Dymaza (1972) had noted that political risks emanate from legal as well as political, economic and cultural environments (Dymaza in Kobrin, 1978: 6).[9] As the scenario planning method

[7] Wilson's framework was originally organised as the SEPT (Social, Economic, Political and Technological) Framework (Wilson, 1998: 87).

[8] This method takes the Legal heading from the PESTLE (Politics, Economics, Social, Technological, Legal and Environmental) method (PestleAnalysis, 2017). This method utilises the SEEPT Framework instead of PESTLE because SEEPT was designed to aid information collection in scenario planning as opposed to business environment analysis (Wilson, 1998: 87; Maack, n.d.; PestleAnalysis, 2017).

[9] Retrieved from Dymaza, W. 1972. *Multinational Business Strategy*. New York: McGraw-Hill.

constructed in this chapter is meant to facilitate political risk mitigation, the Legal variable may therefore incorporate valuable information. Thus the SEEPT Framework for the purposes of this study becomes SEEPTL (Social, Economic, Environmental, Political, Technological and Legal) as it also incorporates relevant Legal information. Below are the SEEPTL Framework variables as well as the elements of the variables. These elements are based on the SEEPTL variable descriptions provided by Wilson (1998: 87), Maack (n.d.) as well as PestleAnalysis (2017) for the Legal variable.[10]

- **Social**: social elements include social unrest (which includes protests and riots), nationalism, ethnic relations, the role of wealth distribution and the impact of civil society on government behaviour and policy (Wilson, 1998: 87; Maack, n.d.).
- **Economics**: this involves macroeconomic indicators such as the balance of payments/trade relations between countries, national economic performance and economic cooperation and partnerships (Wilson, 1998.: 87; Maack, n.d.).
- **Environmental**: this compiles information on air, water and/or land pollution, the quality of the environment, natural resource availability, the availability of raw materials and their sustainability (Maack, n.d.).
- **Politics**: this includes information on relevant political elements such as domestic government policy, structure of government, government stability and relevant legislation (Wilson, 1998: 87; Maack, n.d.). Politics also includes geopolitical, regional and international dynamics such as foreign relations, which incorporates security and military alliances, militarisation, past and present events leading to tensions as well as conflicts (Wilson, 1998: 87; Maack, n.d,).
- **Technological**: this includes technological development in relevant industries as well as directions that technological advancements appear to be taking (Wilson, 1998: 87).
- **Legal**: legal elements include laws and legal dynamics which are relevant to the environment (PestleAnalysis, 2017). These include important pieces of legislation, court cases, legal transgressions and disputes regarding national and international laws.

[10] It must be noted that the case study may not utilise every element in Wilson/Maack's descriptions of the SEEPT variables when it is implemented. This means that certain elements of each variable may be more relevant to the particular environment than others. For example, Wilson listed Demographic Patterns as an element of the Social variable (Wilson, 1998: 87). However, when the method is implemented in Chapter Four, it may not utilise any information on that particular element as there may not be relevant information.

The way that the SEEPTL Framework is implemented in the method entails information on the relevant elements being filed under each variable. Given the broad scope of each variable, these elements form sub-headings under the primary SEEPTL variables and are used in order to further organise the information relevant to the variable. An example of how sub-headings may be filed under the SEEPTL variables could be that under the Politics variable, there may be a sub-heading for Domestic Politics in the particular environment and a sub-heading for Militarisation in the particular environment.

Furthermore, information on how the variables and their elements have affected the corporation or their industry in the environment is also included. The information collected on how the SEEPTL variables have affected the corporation primarily relates to how actors, events or other forces within the elements under relevant variables have threatened or otherwise affected the corporation or their industry's operations as a whole in the specific environment. Examples of this could include collecting information on government expropriation policies towards the corporation or their industry and transnational or national security threats to the corporation such as armed conflict (Alon, Gurumoorthy, Mitchell & Steen, 2006: 624, 626). Further explaining why this information is relevant, Schoemaker (1993) argues that scenario planning needs to identify the stakeholders and understand what repercussions they may face as a result of the scenarios (Schoemaker, 1993: 197). As the corporation is operating within the environment, this makes it a stakeholder within that environment. Therefore, information collected on how the variables and their elements have impacted the corporation and their industry become relevant when the method uses this information to identify trends on how the environment has and may impact the corporation or their industry, thus enabling the method to explain how the driving forces may impact the corporation's operations and interests.

The purpose of this step is to build a base of knowledge on the environment and how it has affected the corporation's operations. The function of Step One was to provide a brief background on the environment and the corporation that the method would be implementing the method, thus defining the focus of the scenario planning. This step uses the SEEPTL Framework to collect and organise relevant information in order to expand the understanding of the environment established in Step One and how it has affected the corporation. This information collection and organisation enables the method to identify and explain trends within the environment in Step Three, thus enhancing the mental representation of the

environment and strengthening the corporation's capacity to identify and understand "plausible alternative projections of a specific part of the future" (Fahey & Randall, 1998: 6).

3.3.3 Step Three: Establishment and Analysis of Trends

With the information collected on the environment in Steps One and Two, the scenario planning method has the capacity to facilitate a deeper understanding of the environment through analysing the information by identifying trends within it. This analysis enables the decision-maker implementing the scenario planning to order "one's perceptions about alternative future environments in which one's decisions might be played out" (Schwartz, 1991: 45). This step mirrors Cronjé's Step Five in his method, which identified and organised trends from the information gathered in the previous four steps (Cronjé, 2014: 47). This scenario planning method implements this step as it recognises the need to identify "what political, economic, societal, technological, legal and industry trends are sure to affect the issues" relevant to the environment (Schoemaker, 1995: 28). This enables the scenario planning to identify key uncertainties in the environment (Schoemaker, 1995: 28). Given its usefulness in identifying and explaining uncertainties, trend identification and analysis are widely used in scenario planning (Ringland, 1998: 3), as identifying trends are an important factor in understanding the key driving forces within the environment (Ringland, 1998: 91).

This step specifically outlines and explains the individual trends using the information collected in Steps One and Two. How the step identifies trends from the information is a part of the process that Ringland (1998) called "building a storyline" that is both credible and coherent (Ringland, 1998: 99; Swart & Fourie, 2014: 619). Ringland (1998) argues that in scenario planning it is also necessary to find linkages and correlations between the uncertainties in the information in order to eventually build scenarios (Ringland, 1998: 95). Lindgren and Bandhold (2003) added to Ringland's comment on linkages between trends by stating that isolating and analysing trends and patterns explores "future consequences and changes in the present, and the interplay between trends and tendencies," thus not only exploring uncertainties, but identifying the links between them as well (Lindgren & Bandhold, 2003: 39). As a result, the analysis of trends in this step not only intends to explain each trend, but also identify linkages between the various trends. These linkages provide a more inclusive mental model of the environment which is necessary for identifying how the future environment may differ from the current one (Thomas, 1994: 6), enabling the identification of key driving forces and the building of the scenarios themselves (Ringland, 1998: 98).

Trend identification and analysis is a crucial element of this method because it identifies and explains uncertainties that exist within the environment over the timeframe. Recognising and linking the trends provides the decision-maker with a more sophisticated understanding of the environment and the dynamics at play within it. Having identified and explained these dynamics and uncertainties within the environment, it is possible to identify key driving forces within the environment (Rajalahti, Janssen, van der Heijden & Pehu, 2006: 20), which is fulfilled by the method in Step Four.

3.3.4 Step Four: Construction of Driving Forces and Turning Points

Step Four utilises the trends constructed in Step Three to identify the key driving forces which may "move the plot" of the environment (Schwartz, 1991: 107). Identifying and explaining these key driving forces is a necessary feature of scenario planning (Copeland, 2006: 16), with Lindgren and Bandhold arguing that identifying the driving forces is crucial for mapping the future as doing so discerns the forces "behind the changes in the arena" (Lindgren & Bandhold, 2003: 55). The primary reason for the importance of identifying key driving forces was expressed by The Futures Group, which asked two important questions when attempting to chart the key driving forces. The first was "What are the essential drivers of the system/environment that concern you?" and the second asked "What forces and developments have the greatest ability to shape its [the environment's] future characteristics" (The Futures Group in Ringland, 1998: 224)?[11] Step Four of this method specifically seeks to answer the first question posed by The Futures Group by identifying and explaining these key driving forces. In order to determine and analyse the key driving forces, this method combines Cronjé's Steps Six and Seven, focused on identifying key driving forces, or "highways to the future," as he called them, as well as identifying how these highways could develop over the timeframe (Cronjé, 2014: 47).

Step Four of the method identifies these "essential drivers of the system/environment" and explains them in order to generate a more complete "understanding of the forces behind the outcome" (The Futures Group in Ringland, 1998: 224; Wack, 1985b). Using the trends identified in Step Three, this step outlines social, technological, environmental, economic and

[11] Taken from Boroush, M & Thomas, C. 1992. Alternative scenarios for the Defense Industry after 1995. *Planning Review*. Vol. 20, No. 3: 24-29.

political factors which may influence how the environment develops over the timeframe (ICRA, 2014). To provide an example of what a driving force may look like, one driving force in an environment could be a state's foreign policy direction. It was noted earlier that Cronjé identified these driving forces in his Sixth Step from the trends that he compiled in his Step Five. However, he also realised that driving forces contain uncertainty regarding how they may evolve in the environment within the timeframe. Therefore, in his Seventh Step, he identified how the driving forces could evolve over different paths, which he called road signs (Cronjé, 2014: 47). Applying this to the example above, a state's foreign policy direction may contain uncertainty about how it may be implemented, thus identifying how it may evolve in the environment reduces that uncertainty. In order to facilitate this in Step Four and address the uncertainties within each driving force, the method identifies two primary turning points for each driving force and explains the content of each turning point, the information and trends that support the rationale behind the turning point and how it may impact the environment over the timeframe. The reason that this element of Step Four identifies two primary turning points is that when the most uncertain and the most impactful driving forces are chosen to form the scenario matrix in Step Five, these two primary turning points for each driving force form each pole of the x and y-axes of the matrix, thus creating scenarios for each quadrant.

With the overall purpose of this method being to utilise scenario planning to facilitate political risk mitigation, it is also important to also identify how these turning points may affect the corporation that the method is being implemented for in order to enable the scenarios to be used to identify and mitigate political risks. While Rajalahti, Janssen, van der Heijden and Pehu (2006) did not use scenario planning to establish and mitigate political risks, they argue that it is necessary to identify how the key driving forces within an environment may impact on the actor that the scenario planning is being implemented for (Rajalahti, Janssen, van der Heijden & Pehu, 2006: 18). As noted earlier, two of these driving forces and their turning points will be determined in Step Five to form the scenario matrix. Therefore, in order to generate a more developed perception of how the scenarios may introduce repercussions for the corporation, it is necessary to analyse how the driving forces and their turning points may affect the corporation and its interests.

The way that Step Four identifies how each driving force and its turning points may affect the corporation is by including a Corporation Impact Assessment (CIA) after each driving force. Using the information collected in Step One on corporate interests, the information collected

in Step Two on how the environment has affected the corporation's operations as well as the trends explained in Step Three, these CIAs analyse how each turning point of the driving force may impact corporation operations. An analogy created by Rolf Jensen (n.d.) provides a clearer idea of what the CIAs seek to accomplish and how they factor into enabling the scenarios to facilitate political risk mitigation. Jensen argued that in strategic thinking a corporation requires two things: 'The Call' and 'The Holy Grail' (Jensen, n.d.). The Call refers to identifying the corporation's problems and obstacles within an environment, while The Holy Grail is the vision that enables the corporation to overcome the obstacles identified in The Call (Jensen, n.d.). CIAs are an important element in formulating The Call. This involves explaining these CIAs, which enables the scenario planning method to relate the scenarios to the corporation, identify political risks relevant to it and obtain the Holy Grail, which entails the prescription of political risk mitigation strategies that address the obstacles identified by The Call.

Identifying the driving forces, their turning points and explaining how they may impact the corporation through constructing CIAs for each driving force enables both the construction of the scenarios in Step Five as well as explain how these scenarios may introduce new or influence existing political risks within its environment over the timeframe. Therefore Step Four enables the construction of scenarios, identification of political risks and eventually allows the method to prescribe risk mitigation strategies.

3.3.5 Step Five: Construction of Scenarios

With the driving forces identified and explained in Step Four, the method is able to use the them to construct and explain the scenarios for the environment over the timeframe. Cronjé (2014) facilitated scenario building in his Eighth, Ninth and Tenth Steps, which he began by ranking the highways according to their relative levels of uncertainty and impact on the environment (Cronjé, 2014: 48). Cronjé subsequently identified the highway with the highest uncertainty rating and the highway with the highest impact rating and used these highways to form the axes of the scenario matrix, with the road signs for each highway consisting of the matrix poles (Cronjé, 2014: 48). Each of the four quadrants of the matrix contained two road signs which interact with one another, thus forming the scenarios (Cronjé, 2014: 48). Cronje subsequently provided explanations for each of the scenarios (Cronjé, 2014: 49). The Fifth Step of the method constructed in this study condenses Cronjé's Eighth, Ninth and Tenth Steps into a single step by rating each driving force in terms of its uncertainty and impact, providing an explanation for the ratings and building the scenario matrix as a result. The method

constructed in this study can therefore be best described as a mixed method as it categorises and analyses information in a predominantly qualitative manner but uses numerical ratings when constructing the scenario matrix. Consequently, this step provides a more in-depth explanation of the scenarios after the scenario matrix has been constructed. This enables the Sixth (and final) Step to use the scenarios and their explanations to identify and explain the political risks and mitigation strategies for the corporation.

The importance of the first element of this step, which involves providing uncertainty and impact ratings for the key driving forces, was emphasised by The Futures Group. When discussing Step Four, two important questions asked by The Futures Group concerning key driving forces were identified. Identifying and explaining the key driving forces in Step Four answered the first question, and Step Five answers the second question, which asked "What forces and developments have the greatest ability to shape its [the environment's] future characteristics" (The Futures Group in Ringland, 1998: 224)?[12] Brands, Meissner and Wulf (2011) argue that the forces that have the greatest ability to shape the environment consist of the most impactful and the most uncertain driving forces (Brands, Meissner & Wulf, 2011: 5). In order to identify these forces, it is necessary to first define them. Using Riabacke's (2006) definition of uncertainty, an uncertain driving force consists of one whose outcome is unknown (Riabacke, 2006: 1). Thus if the outcome of a driving force is more difficult to anticipate, then it is more uncertain. Pertaining to driving force impact, driving force ratings are determined by the extent that the driving force may influence the environment. The way that the most impactful and uncertain driving forces are identified is through allocating two ratings for each driving force between one and ten measuring their impact and their uncertainty, with a rating of one indicating that it is minimally impactful or uncertain and a rating of ten indicating that it is maximally uncertain or impactful (Brands, Meissner & Wulf, 2011: 5).

These ratings are then expressed on a scatter plot influenced by the Impact/Uncertainty Grid utilised by Brands, Meissner and Wulf (2011). The overall purpose of the Grid is to enable the method to provide a "good visualisation when it comes to selecting two-meta categories for the scenario development process" (Brands, Meissner & Wulf, 2011: 9). Therefore, the Impact/Uncertainty Grid for this method provides a visual representation of the impact and

[12] Taken from Boroush, M & Thomas, C. 1992. Alternative scenarios for the Defense Industry after 1995. *Planning Review*. Vol. 20, No. 3: 24-29.

uncertainty ratings for driving forces determined in the first element of this step and this provides the decision-maker with an alternative means of comparing the ratings of the various driving forces. The x-axis of the scatter plot expresses the uncertainty ratings of the driving forces, with the y-axis expressing the impact ratings (Brands, Meissner & Wulf, 2011: 5). After the Grid has been completed with the values of the driving forces expressed, an explanation of the reasoning behind the impact and uncertainty ratings is provided. The reasoning behind the ratings derive from the analysis of the key driving forces facilitated in Step Four.

With the ratings determined and the Grid completed, it is possible to construct the scenario matrix. The way that the matrix is constructed in this study is based on how Cronjé built his scenario matrix in his Ninth Step (Cronjé, 2014: 48). Scenario matrices are a relatively common method of building scenarios and are incorporated into this method because they "cut through many complex issues and isolate two sources of great uncertainty" (Maack, n.d.). In Cronjé's method the matrix formed four quadrants with the most uncertain highway comprising of the x-axis and the most impactful highway comprising of the y-axis (Cronjé, 2014: 49), as in the Impact/Uncertainty Grid. The road signs determined for each highway form the poles of each axis (Cronjé, 2014: 48). With the highways and road signs placed in the matrix, the method provides scenarios for each quadrant. Each quadrant's scenario consists of the two turning points forming the quadrant interacting with each other (Cronjé, 2014: 48). The method visually portrays the matrix's four scenarios with a very brief summary of each scenario being included in the relevant quadrant (Cronjé, 2014: 48). The scenario matrix constructed in this method follows that format, using the highest rated driving force for uncertainty to form the x-axis of the matrix and the highest rated driving force in terms of impact to form the matrix's y-axis. The primary turning points identified in Step Four for the two driving forces comprise of the poles for the axes. Within each quadrant of the matrix, a brief description of the scenario is provided identifying the two turning points that interact to create the scenario and the overall outcome of the scenario.

The final element of this step is to explain the four scenarios that will have been constructed by the matrix in greater detail. Specifically, these explanations describe how the relevant driving forces and turning points interact with one another to form the scenarios and how the scenarios influence the environment to evolve over the course of the timeframe. Maack (n.d.) argues that explaining the scenarios in detail enables a greater understanding of the implications of the scenarios by the corporation (Maack, n.d.). Supporting this argument,

Bremmer and Keat (2009) state that risk mitigation requires an understanding of the environment "on the ground" as "risks are hard to manage unless they are understood" (Bremmer & Keat, 2009: 191). Therefore, developing a more thorough understanding of the scenarios is an important element in identifying and mitigating the potential political risks that the corporation may face in the environment over the timeframe in Step Six.

Using Cronjé's Eighth, Ninth and Tenth Steps as a structural foundation, Step Five of this scenario planning method is able to build scenarios for the environment from the key driving forces identified and explained in Step Four. These scenarios are useful for enabling decision-makers to formulate an expanded mental model for their environment and therefore understand what political, social and economic factors may have an impact on the corporation and enable them to devise and implement strategies as a result (Maack, n.d.). The method facilitates this function in Step Six, as it uses the scenarios to identify political risks for the corporation and prescribe risk mitigation strategies, thus enabling scenario planning to be utilised as a tool for political risk mitigation.

3.3.6 Step Six: Identification and Explanation of Political and Political-Security Risks and Mitigation Strategies

With the scenarios having been constructed and explained in Step Five, it is possible to use the them to identify political risks for the corporation and prescribe risk mitigation strategies. In constructing the scenarios, the method has identified and explained the uncertainties of the political environment that the corporation has been operating in, or may do in the future. This has been achieved by identifying the key driving forces that may influence the environment in the scenarios and addressed the uncertainty of how those driving forces may develop. Using that knowledge, Step Six identifies political risks from the scenarios that may impact on the corporation and also uses the scenarios to prescribe risk mitigation strategies. This enables the method to accomplish its goal of utilising scenario planning to facilitate political risk mitigation.

Step Six facilitates the identification of political risk factors for the corporation by drawing on the information collected on corporate interests in Step One, the CIAs constructed for each key driving force in Step Four and the scenarios constructed in Step Five. While the scenarios alone may be useful for identifying political risks for a corporation within an environment, further information and analysis on the corporation's interests and goals, as well as the potential impact

of the driving forces on the corporation, provide more insight into the political risks that the corporation may experience in the environment over the timeframe. Political risk was defined utilising the literature of the various authors in Chapter Two as the way that political, economic and social events, decisions or conditions within a country or region may negatively impact on a single corporation's operations or all of the corporations' operations within the environment, Step Six uses the CIAs to identify political risks in the scenarios constructed. This also includes the identification of political-security risks, which specifically focus on security risks potentially threatening the corporation on a transnational, national or individual level. As the CIAs identified how the driving forces and their turning points may affect the corporation, they are a useful resource for identifying these politically, economically and socially-related factors which may present risks, be they solely impacting the corporation and their industry or impacting the environment as a whole as well[13]. Specifically, identifying and explaining the political risks involves identifying which scenarios contain the highest probability for the risk to impact the corporation's operations and interests, an overall explanation of the risk factor that may include mentioning past experiences that the corporation had regarding the risk factor and how the risk factor may have an impact on the corporation over the timeframe.

Using the information and analysis of the political risks within the environment for the corporation as well as the scenarios, Step Six identifies risk mitigation strategies to address the risks identified. The mitigation strategies are formulated from identifying strategies that can decrease the probability and impact of the risks (Bremmer & Keat, 2009: 195). These risk mitigation strategies may include risk minimisation, risk elimination, risk isolation and risk avoidance strategies discussed by Bremmer and Keat or implementing more reactive strategies such as buying political risk insurance (Bremmer & Keat, 2009: 295; Rajwani, 2011). Figure 2 below provides examples of the types of political risk mitigation strategies that could be prescribed in Step Six. The political risk mitigation strategies identified in this step seek to address as many of the political risks concurrently as possible in order to minimise the exposure that the corporation may have to the risk factors. Furthermore, the risk mitigation strategies that are formulated are also developed with the purpose of protecting the corporate interests identified in Step One, as Maack (n.d.) argues that it is important when facilitating scenario

[13] Political risks identified from the scenarios which may impact all corporations and industries operating in the environment while also being relevant for the corporation that the method is implemented for may include "War and Security Issues," "Coups d'Etat," and "Social Revolutions" (Alon, Gurumoorthy, Mitchell & Steen, 2006: 628).

planning to incorporate information on the actor's desired outcomes from the scenarios (Maack, n.d.).

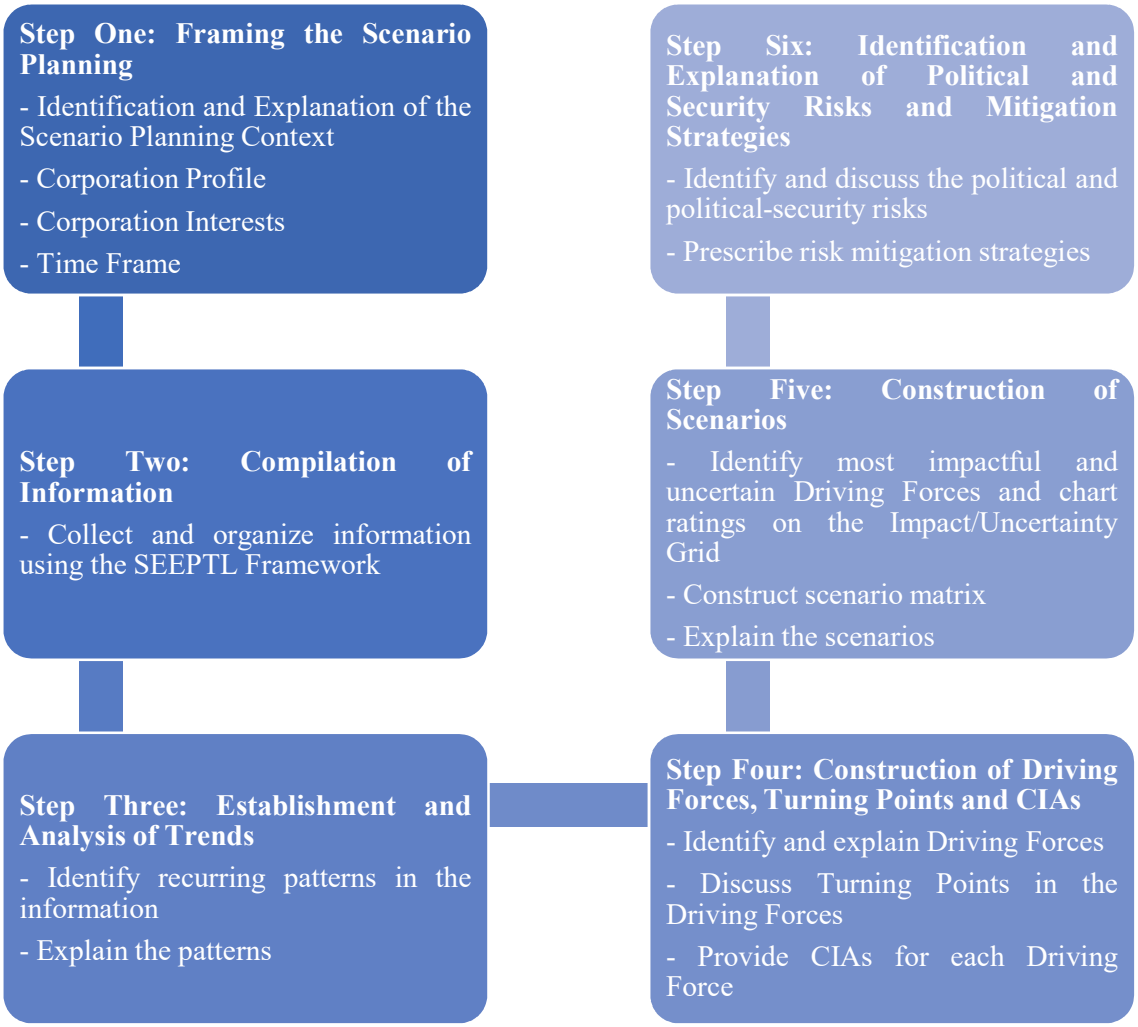
Figure 2: Potential Political Risk Mitigation Strategies identified by the Study

(Bremmer & Keat, 2009: 195-196; Rajwani, 2011)

As a result of facilitating a more developed understanding of the environment through constructing scenarios in Step Five, the method is able to identify the political risks that may affect the corporation in the environment over the timeframe. With the completion of Step Six, the method will have successfully constructed scenarios and used them to facilitate political risk mitigation as well as ensuring that the scenarios were utilised to identify political risks and prescribe risk mitigation strategies relevant to the corporation for which the method was implemented.

3.4 Visual Representation of the Scenario Planning Method

Figure 3: The Scenario Planning Method



(Compiled by the author for the purposes of this study)

3.5 Conclusion

The goal of this chapter was to answer the primary and first sub-research questions, which asked how a scenarios-based risk mitigation method could be used as a tool by corporations for political risk mitigation and how it could incorporate the corporation's background and interests in order to identify and mitigate political risks relevant to the corporation. In order to accomplish this, the method incorporates several elements to address those questions. Through collecting information in Steps One and Two and analysing the information to identify trends and key driving forces in Steps Three and Four, the method is able to construct scenarios in Step Five. This enables the method to compile information on the environment allowing the method to develop political risk mitigation strategies in Step Six and therefore answer the

primary research question. An important element of addressing the primary research question as well as the first sub-question is the inclusion of information on the corporation collected in Steps One and Two and used to relate the driving forces to the corporation in Step Four. This ensures that the method can identify political risks for the corporation and prescribe risk mitigation strategies, facilitating risk mitigation and therefore enable the corporation to operate in an uncertain political environment. With the method having been explained, it is possible to apply the method to the single case study in Chapter Four, thus answering the final two research questions by testing the method in a practical environment.

Chapter Four: Implementing the Scenarios-based Risk Mitigation Method in the SCS

4.1 Introduction to the Chapter

With the rationale and process of the scenarios-based risk mitigation method having been explained in the previous chapter, it is possible to apply it to a single case study. This chapter addresses the final two research questions, which seek to determine whether the method is able to use scenario planning to develop scenarios for the SCS over the timeframe and utilise them as a tool for political risk mitigation in the case study of Exxon Mobil's operations in the SCS from 1 February 2017 to 1 February 2018. In order to answer the research questions, the method collects and organises relevant information on the corporation and the environment and analyses the information by identifying trends and key driving forces. This enables the Exxon Mobil decision-makers to utilise the information on the environment to develop an inclusive mental model that allows them to build scenarios that reflect the facts within the environment and not merely their initial, potentially biased perceptions. This inclusive mental model is necessary for a scenario matrix to be constructed. Political risks are identified from the scenarios, which explain how they will manifest over the timeframe; the method lastly develops multiple risk mitigation strategies that Exxon Mobil can implement.

4.2 Step One: Framing the Scenario Planning

4.2.1 Identification and Explanation of the Scenario Planning Context

The SCS dispute concerns legal and historical ownership of the body of water and islands, reefs and shoals within it that is located between China, the Philippines, Vietnam, Brunei, Malaysia, Taiwan, Singapore and Indonesia.[14] While disputes over ownership of these waters have existed for centuries (Clark, 2016), the recent spate of disputes and escalations began after 2010, when the USA contended that China's territorial claims were in conflict with international law (Rachman, 2015: 75). While Malaysia, Vietnam, Brunei and the Philippines have all made territorial claims to areas within the SCS, China's claims are by far the most expansive (Beech, 2016a). Their claimed territory boundary has been called the nine-dash line, which covers approximately 90% of the total area of the SCS and infringes upon its neighbours'

[14] Refer to Map 1 in the Appendix to see the conflicting territorial claims in the SCS.

exclusive economic zones (EEZs)[15] (Beech, 2016a; Hunt, 2016). In order to enforce its claims, China has implemented land-dredging and reclamation operations on islands and shoals in the SCS (Hunt, 2016). China has also built military installations on the islands under their control in the Paracel Islands (Cohen, 2016; British Broadcasting Corporation, 2016b).

According to Rachman (2015), these developments have worried China's neighbours as China's perceived expansionist foreign policy has increased uncertainty in Southeast Asia regarding China's geopolitical intentions and how the resulting actions will affect them (Rachman, 2015: 104). This assertive Chinese foreign policy has largely been motivated by the tremendous economic growth that China has experienced over the last 15 years and a resultant Chinese desire to expand geopolitical influence and control in Southeast Asia in order to protect its core national interests, which include its territorial claims in the SCS (Rachman, 2015: 36; Lam, 2015: 192). China's claims and behaviour have alarmed its smaller neighbours who perceive that China is trying to bully them (Rachman, 2015: 51). Vietnam and the Philippines have especially disputed China's territorial claims, but lack the military capacity to challenge China and are heavily dependent on economic activity with them (Glaser, 2015). They have had to engage in a balancing act of asserting their maritime sovereignty and maintaining steady relations with their larger neighbour (Rachman, 2015: 104). Increasing the importance of the SCS is its reserves of oil and gas as well as the fact that it is a crucial trade route (Marshall, 2016: 52). The SCS is believed to contain between 5 and 22 billion barrels of oil and between 70 and 290 trillion cubic feet of gas (U.S. Energy Information Administration, 2013), although the exact amount of oil and gas in the SCS remains disputed (Herberg, 2016). Marshall (2016) argues that China's vulnerability regarding the oil and gas trade travelling through the SCS from the Straits of Malacca, which is a strategic chokepoint for Chinese trade (Marshall, 2016: 82), emphasises the SCS's strategic importance for China.

China's attempts to assume control and dominance in the SCS have also resulted in geopolitical competition between China and the USA (Marshall, 2016: 51). The USA has traditionally been the primary influential power in Southeast Asia since the end of World War Two (Beech,

[15] According to Hunt (2016), an EEZ is an area off a country's coast within a certain distance of that country's coastline. Within a country's EEZ, that country holds exclusive rights to fishing, drilling and other economic activities. In the SCS, the EEZs extend 200 miles off of the coasts of the countries involved. Thus a territorial impingement on an EEZ not only consists of an illegal encroachment onto another state's territory, but it also can interfere with that state's economic activity in the EEZ.

2016b). However, with China's economic growth having skyrocketed over the last several years, it now has the world's second largest economy (World Bank, 2015). China's concurrent economic growth and military modernisation have enabled it to challenge America more directly than they would have even 20 years ago (Rachman, 2015: 38; Lam, 2015: 191). China's prioritisation of controlling and protecting their national interests also extends to international law, as China has refused to recognise The Hague's finding in July 2016 that ruled China's SCS claims as illegitimate according to UNCLOS (Hong, 2016; Hunt, 2016). However, with the election of Donald Trump as the 45th President of the USA, the future of this tense geopolitical rivalry is uncertain, with President Trump's foreign policy[16] direction towards Southeast Asia and the SCS being vague thus far.

This regional instability has threatened the sustainability and safety of oil and gas operations in the SCS. The SCS has been excavated by numerous foreign oil and gas corporations which have seemingly been unaware of, or have underestimated the potential ramifications of operating in the disputed waters (Quogiang, 2015). Given China's geopolitical agenda and its unwillingness to adhere to the laws of UNCLOS, China has sought to enforce its dominance in the region by impinging upon the oil and gas operations within other states' EEZs (Buszynski, 2012). This has resulted in fierce competition, notably between China, the Philippines and Vietnam, over securing excavation contracts with oil and gas corporations. This competition has taken the form of physical intimidation, such as harassment by coast guard forces, and attempts at non-physical intimidation, such as exerting political pressure on oil and gas corporations to excavate in undisputed waters (Wee, 2011). These efforts have succeeded in intimidating many larger oil and gas corporations such as Chevron (Cunningham, 2014).

4.2.2 Corporation Profile

Exxon Mobil Corp is the largest oil and gas corporation in the world and has undertaken operations in the SCS since 2008 (Hayton, 2014: 141). The American corporation has been operating with Vietnamese state-run oil and gas corporation PetroVietnam in exploration blocks[17] 156, 157, 158 and 159 as well as in blocks 117, 118 and 119 (Hayton, 2014: 141).

[16] Foreign policy is understood in this study to be the "sum total of all activities by which international actors act, react and interact with the environment beyond their borders" (McGowan, Cornelissen & Nel, 2011: 120). Frankel (1963) adds to this by arguing that foreign policy consists of behaviour and actions which involve state relations with other actors (Frankel, 1963: 1).

[17] These blocks are referred to both as excavation and exploration blocks in this chapter as both terms are interchangeable. Maps 2 and 3 show these excavation blocks in the Appendix.

These blocks are found off the southern and eastern coasts of Vietnam, within Vietnam's EEZ, but also partially lie within China's nine-dash line (Hayton, 2014: 141). Exxon Mobil operations have, as a result, faced political pressure from China to abandon their excavation contracts with PetroVietnam (Buszynski & Roberts, 2015: 98). Further complicating their operations is that Chinese oil and gas corporations such as the Chinese National Offshore Oil Corporation (CNOOC) have claimed excavation blocks within Vietnam's EEZ that have already been allocated to Exxon Mobil (Ling, 2012). Nonetheless, Exxon Mobil has continued to operate in the SCS, having adopted a strategy of ignoring China's displeasure, notably under former CEO Rex Tillerson (Hayton, 2017). An important current development that involves Exxon Mobil is a joint project with PetroVietnam to develop Vietnam's largest natural gas–fired power generation project (Clark, 2017). The project zone, called the 'Blue Whale,' lies in block 118, which is situated in disputed waters between Vietnam and China (Clark, 2017). While the project is scheduled to begin in 2023, it has already elicited Chinese declarations that foreign companies should refrain from exploration in the contested area (Clark, 2017).

4.2.3 Corporation Interests

Exxon Mobil intends to maintain the excavations occurring in its excavation blocks off the coast of Vietnam (Clark, 2017). The corporation seeks to achieve profitability for their operations and avoid the potential negative repercussions of geopolitical competition and conflict in the region (DiChristopher, 2017; Hayton, 2017). The corporation's interests can be summarised in the following points:[18]

- Ensure the profitability and sustainability of operations in the SCS[19]
- Avoid the intimidation tactics implemented by Chinese naval vessels and the Chinese government within Exxon Mobil's excavation blocks and maintain safety of operations
- Maintain positive relations with the Vietnamese government and PetroVietnam, with whom excavations are being conducted
- Ensure that relations with fellow commercial partner and potential market China remain stable

[18] It must be noted that Exxon Mobil has not explicitly stated its interests and goals regarding excavations in the SCS. However, this section was compiled from articles and literature discussing Exxon Mobil operations in the region.

[19] This is especially important given Exxon's poor financial performances since 2012. From 2012 to 2016 Exxon Mobil's net income declined by approximately 85%, primarily as a result of increasing capital expenditures and decreasing oil prices (SRS Rocco Report, 2016).

As can be seen above, Exxon Mobil faces the difficult task of balancing relations between China and Vietnam, who are on the opposite sides of the territorial dispute, while avoiding the damage and inconveniences brought about by intimidation tactics and still managing profitable operations.

4.2.4 Timeframe of the Scenario Planning

The scenario planning method builds scenarios that may occur in the SCS over the timeframe from 1 February 2017 to 1 February 2018. The reasoning behind this timeframe is that a shorter timeframe makes the scenario planning potentially more accurate as there are fewer unknown variables, as opposed to a five-year timeframe, which incorporates more unknown factors that may result in future political and economic shocks. Nonetheless, the dispute in the SCS is an unpredictable one and geopolitical shocks have occurred even within the space of a year, thus this timeframe is not too narrow to be useful.

4.3 Step Two: Compilation of Information

4.3.1 Collection and Organisation of Information

4.3.1.1 Social

Nationalism in Southeast Asia

In 2014, during the Haiyong Shiyou 981 oil rig incident, there were widespread anti-China protests in Vietnam (*The Economist*, 2014). This resulted in violence against Chinese businesses and citizens (Perlez, 2014). China responded to this unrest by freezing Vietnamese imports to China (*The Economist*, 2014).

Chinese civil society has overwhelmingly supported China's SCS claims, claiming that "China can't be one dash less" (Hunt, 2016). After the ruling on the Philippines' SCS arbitration case was made known, there was an overwhelming response by Chinese citizens on social media rejecting the ruling and reaffirming China's territorial claims (Xi, 2016).

The Relationship between Civil Society and Government Policy

Rachman (2015) states that government fears regarding domestic political instability have been a causal factor in explaining China's more assertive foreign policy (Rachman, 2015: 55).

Specifically, the Chinese leadership is afraid of their citizens pushing for democracy, leading the Chinese leadership to use foreign policy issues to distract the populace (Rachman, 2015: 55). Furthermore, China believes that projecting its power in the SCS as well as reaping the potential economic benefits will enable the country to maintain its economic growth, thus satisfying the economic demands of their burgeoning middle class (Solomon, 2016). Townshend (2016) argues that The Hague ruling in June 2016 put considerable pressure on the Chinese government "to respond, to save face, to demonstrate with more than just words that it doesn't abide by and doesn't credit the ruling with any legal validity and will not adhere to it and will defend its 'sovereign space' in the South China Sea" (Townshend in Phillips, Holmes & Bowcott, 2016).

4.3.1.2 Economics

Trade Relations in Southeast Asia

Table 1: China's Trade with its Southeastern Neighbours

SOUTHEAST ASIA REGIONAL TRADE STATISTICS (2015)		
VIETNAM TRADE WITH:	China	**Exports**: $16.57 billion dollars (2nd overall) **Imports**: $ 149. 44 billion dollars (1st overall)
THE PHILIPPINES TRADE WITH:	China	**Exports**: $6.39 billion dollars (3rd overall) **Imports**: $111.48 billion dollars (1st overall)
MALAYSIA TRADE WITH:	China	**Exports**: $26.06 billion dollars (2nd overall) **Imports**: $133.24 billion dollars (1st overall)
INDONESIA TRADE WITH:	China	**Exports**: $17.61 billion dollars (2nd overall) **Imports**: $130. 62 billion dollars (1st overall)

(World Integrated Trade Solution, 2017a, b, c, d)

As can be seen in Table 1, these four Southeast Asian countries have been running massive balance of payments deficits regarding trade with China (World Integrated Trade Solution, 2017a, b, c, d). Another important feature of these statistics is that China is the primary exporter of goods to these countries and is a major importer of goods (World Integrated Trade Solution, 2017a, b, c, d).

Economic Cooperation and Partnerships

China is trying to boost regional trade and economic development through their Maritime Silk Road Initiative, which is also known as the One Belt One Road Initiative (*China Daily*, 2015). An element of the Silk Road Initiative has been the creation of the Asian Infrastructure Investment Bank (AIIB) (Rachman, 2015: 78). The AIIB aids in infrastructure development and creating trade relations (Rachman, 2015: 78), with members spanning from China's Southeast Asian neighbours to Europe (Asian Infrastructure Investment Bank, 2017a).

The number of Chinese investment projects in Vietnam has also increased from 110 projects (worth $221 million dollars) in 2001 to approximately 1180 projects (worth $8.5 billion dollars) in 2015 (Son, 2015). One of these investment projects is a $1.75 billion dollar power plant built by China in Vietnam (Reuters Africa, 2015). China has also invested in the Philippines, although on a much smaller scale. Stern (2016) argues that the relatively paltry investment sum of $41.4 million dollars in 2014 was a punishment for the Philippines' complaints about China's territorial claims (Stern, 2016). China owns a 40% stake in the National Grid Corporation of the Philippines (NGCP) (Stern, 2016). Given that the NGCP controls power distribution for all of the Philippines, this has been viewed by Philippine politicians as a threat to the Philippines' national security (Stern, 2016).

Regional Economic Growth and Trade

Asian economic growth is outpacing the economic growth of countries in the Western hemisphere, pushing the economic centre of gravity in the world eastward (Rachman, 2015: 30). This has largely been as a result of China's rapid economic growth, with its gross domestic product (GDP) having grown from approximately $3.5 trillion dollars in 2007 to approximately $11 trillion dollars in 2015 (Trading Economics, 2017b). China's share of the world real GDP (Purchasing Power Parity) as a result is set to increase from 13.6% in 2010 to an expected 20% in 2050 (Rachman, 2015: 30). The Philippines and Vietnam have also enjoyed economic growth over the last several years, with the Philippines' GDP having increased from $199 billion dollars in 2010 to $304 billion dollars in 2016 and Vietnam's GDP increasing from $116 billion dollars in 2010 to $203 billion dollars in 2016 (Trading Economics, 2017c, d).

Approximately $5 trillion dollars worth of trade travels through the SCS each year (Fensom, 2016). According to Hillary Clinton, approximately 50% of global trade passes through the

SCS (Rachman, 2015: 105). Clinton further stated that American national interests require keeping the sea lane open to allow the trade to flow through (Rachman, 2015: 105). Of the approximately $5.3 trillion dollars of trade that travels through the SCS annually, American trade accounts for $1.2 trillion (Glaser, 2015). However, it must be noted that the CSIS estimates that only $3.37 trillion dollars of trade flowed through the SCS in 2016, as opposed to $5 trillion dollars (Center for Strategic and International Studies, 2017). Furthermore, the SCS is a vital import route for China, as 80% of its crude oil imports travel through the SCS (Fensom, 2016) with approximately 12 million barrels of oil travelling through the Straits of Malacca to China every day (Marshall, 2016: 82).

4.3.1.3 Environment

State of Natural Resources in the SCS

There are substantial reserves of oil and gas in the SCS. However, it is unclear as to how much is there exactly. The U.S. Geological Survey estimates reserves of 11 billion barrels of oil and 190 trillion cubic feet of natural gas (Herberg, 2016). This suggests more modest reserves than previously thought (Herberg, 2016). In 2014 the Asia-Pacific region consumed 11.2 billion barrels of oil and 24 trillion cubic feet of natural gas (Herberg, 2016). Thus it is possible that the dispute is less about natural resources than previously thought (Maxie, 2016).

4.3.1.4 Politics

Domestic Political Issues relevant to the SCS Dispute

China has framed its core national interests in order to avoid its oppressive colonial past from ever occurring again, which China refers to as its Century of Humiliation (Rachman, 2015: 26-27); hence it places a heavy emphasis on national sovereignty, security, territorial integrity and development interests (Xi, 2014: 10).

The Communist Party of China (CPC) and the Communist Party of Vietnam (CPV) have traditionally had a close relationship (Hiebert, 2015). This relationship has remained strong despite the dispute over the SCS at least partially because of the strong economic relations between the two countries (Hiebert, 2015).

In the autumn of 2017 China will host its 19th Party Congress, in which new members of the Politburo Standing Committee will be confirmed (Bremmer & Kupchan, 2017). In order to expand his power base, President Xi Jinping may be less compromising when addressing core

national interests such as the SCS, as "Xi will view any external challenge as an unwelcome distraction from focus on domestic political machinations" (Bremmer & Kupchan, 2017). This is relevant as the Chinese government has been criticised over the last few years by the Chinese population for its perceived lack of a stern response to American FONOP[20] missions and have pressured them to react harshly in future (Aleem, 2017).

Regional Relations Relevant to the SCS Dispute

Vietnam and China both claim sovereignty over the Paracel and Spratly Islands. Vietnam has consequently forged closer relations with Japan, the Philippines and the USA (Hiep, 2015). Furthermore, Vietnam has tried to use the Association of Southeast Asian Nations (ASEAN) to counter China's behaviour by signing a strategic partnership with Indonesia in 2013 as well as finalising a bilateral strategic partnership with the Philippines in 2016 (Tuan, 2013; CNN Philippines Staff, 2016).

Philippine President Rodrigo Duterte has sought further political, economic and security ties with China (*South China Morning Post*, 2016a). Duterte has pressured American soldiers stationed in the Philippines to leave and has expressed a desire to end the 28 annual military exercises between the USA and the Philippines (Chang, 2016; Gomez, 2016). He has also asked China for aid in infrastructural development (South China Morning Post, 2016a). Philippine officials have been in talks with Chinese officials in order to finalise a deal which would enable both countries to work together in order to excavate for oil and gas in the SCS (Daiss, 2016).

Japan and China are currently disputing territorial sovereignty in the East China Sea (ECS) (Rachman, 2015: 34). Japan has also developed security partnerships with states involved in the SCS dispute (Rachman, 2015: 107).

China has used historical claims to support its assertion regarding its nine-dash line (Phillips, Holmes & Bowcott, 2016). To boost its claims, China has engaged in island reclamation and land-dredging operations in the SCS, notably in the Paracel Islands (Rachman, 2015: 54). There is also evidence indicating that China has built military installations and runways on these

[20] The American FONOP programme is intended to uphold UNCLOS by ensuring that all actors in the SCS have "navigation and overflight rights" as well as upholding the navigation rights that states have through their EEZs (Kuok, 2016).

islands (Cohen, 2016). Furthermore, the China National Nuclear Corporation plans to build nuclear power stations in the SCS, the rationale being that the "marine nuclear platform construction will be used to support China's effective control in the South China Sea" (Duong, 2016). China has also shown a willingness to impinge upon other states' EEZ's (Hunt, 2016). This took place in May 2014 when China moved the Haiyong Shiyou 981 oil rig into Vietnamese waters off the Paracel Islands (Phan, 2016; Calvo, 2015). Since the Philippines took legal action against China at The Hague in January 2013, China has accelerated its developments in the SCS (Hunt, 2016). They have added approximately 2000 acres of land and have built land features within the Philippines' EEZ (British Broadcasting Corporation, 2015b). In its developments on the islands in the SCS, China has built airstrips and installations housing anti-aircraft weapons (Cohen, 2016). During its dispute with Japan over the ECS in 2016, China established an Air Defence Identification Zone (ADIZ)[21] (Rachman, 2015: 52). It must be noted that China has not established an ADIZ in the SCS (Jennings, 2016). Furthermore, China has responded to provocations from President Trump, notably his refutation of the One-China Policy, by conducting long-range air-force drills over the SCS in December 2016 (Krishnamoorthy, 2016).

As a result of the territorial dispute, many oil and gas corporations such as Exxon Mobil, Chevron, Forum Energy and ConocoPhillips have experienced varying levels of harassment and political pressure from China to withdraw from excavation contracts with other states (Cunningham, 2014). In February 2016 CNOOC invited foreign energy companies to tender for excavation blocks in a southern area of the SCS off of the coast of Vietnam near the Paracel Islands, implying that China controlled that territory despite it being within Vietnam's EEZ (Reuters Africa, 2016). China has used vague threats in order to intimidate oil and gas corporations from entering into contracts with its regional neighbours, particularly Vietnam (AmCham Vietnam, 2011). In 2007 threats of this nature caused five excavation projects to be halted (AmCham Vietnam, 2011). Furthermore, in July 2008, China threated that Exxon Mobil businesses would face risks in China if they did not cease cooperation with PetroVietnam and cancelled a planned $1 billion dollar natural gas facility in Hong Kong (Hayton, 2014: 141-142).

[21] The ADIZ requires all non-Chinese aircraft to identify themselves to the Chinese authorities (Rachman, 2015: 52).

ASEAN attempts to resolve the dispute have failed to address the bitter divisions which have exacerbated the tensions. For example, at an ASEAN Summit in November 2015, land reclamation and militarisation were not discussed and no lasting solutions were arrived at (British Broadcasting Corporation, 2015a).

International Political Issues Relevant to the SCS Dispute

Former President Obama introduced the Asia Pivot in 2009 (Rachman, 2015: 71). The purpose of the Pivot was to reinforce American influence and presence in Southeast Asia (Rachman, 2015: 71). A significant element of the Pivot was the Trans-Pacific Partnership (TPP). The TPP was a 12-state free trade agreement formulated by former President Obama to counter the economic incentives provided by China to its regional neighbours (Rachman, 2015: 79). However, when Donald Trump assumed office in January 2017, he cancelled the TPP (Al Jazeera, 2017).

American relations with China suffered a setback in 2010 when former-Secretary of State Hillary Clinton argued for the need to respect international law in the SCS (Rachman, 2015: 75). China perceived Clinton's statement as a challenge to its claims (Rachman, 2015: 75). This signalled an increase in tensions between China and the USA in the region (Rachman, 2015: 76). The USA has implemented FONOP missions in order to ensure freedom of passage through the SCS. These continued into the latter half of 2016, with an American warship traveling close to the Chinese-held Paracel Islands in order to restore navigation rights through the sea (Wu, 2016).

The USA is a treaty ally of Japan, South Korea, Singapore and the Philippines (Rachman, 2015: 107). This means that if those countries are attacked, the USA is obligated to defend them (Rachman, 2015: 107). Furthermore, the USA has ignored aggressive Vietnamese and Philippine actions taken towards China, with the US Senate passing a resolution in July 2013 condemning only the Chinese actions in the SCS and ECS (Hiebert, Nguyen & Poling, 2014: 16). Another important potential piece of legislation concerning the SCS is the South China Sea and East China Sea Sanctions Act of 2016 (Congress, 2017). This bill criticises China's interference in the free use of waters and airspace in the SCS and ECS, dismisses China's territorial claims as illegitimate and condemns its militarisation; the bill intends to impose sanctions on Chinese individuals who profit from and are involved with construction and developments in the SCS (Congress, 2017).

The USA has been pressured by its allies in Southeast Asia to explicitly take sides in the dispute and support them. Subsequent wavering American support for its allies in Southeast Asia shown by President Trump has persuaded states such as the Philippines, Malaysia and Vietnam to explore security relations with China (Ng & Lo, 2017; Berlinger, 2016).

President Trump's foreign policy stance on Asia has been vague. After winning the 2016 Presidential Election, Trump accepted a phone call from Taiwanese President Tsai Ing-Wen, which represented a violation of the One-China Policy (Taylor, 2016). Trump was unaware of the importance of the One-China Policy and has not defined principles or goals in terms of which American foreign policy could be applied in Southeast Asia (Taylor, 2016). Trump had criticised Chinese currency manipulation during his campaign (Kaiman, 2016), picking Peter Navarro to lead his national trade council (British Broadcasting Corporation, 2016c). Navarro has been especially critical of Chinese trade policies (British Broadcasting Corporation, 2016c). There is concern that Navarro may encourage a trade war with China (Vaswani, 2016). The only central tenet of Trump's foreign policy has been that it will follow an 'America First' direction (Bremmer & Kupchan, 2017). This means that American foreign policy will be focused on defending and upholding American interests (Bremmer & Kupchan, 2017). Thus American national interests will take priority over the interests of other states (Bremmer & Kupchan, 2017). President Trump has also expressed a desire to increase funding for defence expenditure, increasing total expenditure to between $500 million dollars to $1 trillion dollars (Tiefer, 2016). The rationale behind this is to establish "a more robust presence in key international waterways and choke points" such as the SCS (Holland, 2017).

Both President Trump and the Secretary of State Rex Tillerson have criticised Chinese behaviour in the SCS (Qiu, 2016). President Trump has used the social media platform Twitter as well as interviews with the press to criticise Chinese military installation-building in the SCS (Qiu, 2016). Tillerson, on the other hand, during his Senate confirmation hearing, recommended formulating means to prevent Chinese access to the islands in the SCS (Aleem, 2017). The Chinese government's response was restrained and they continued to assert that the territory was under its sovereignty (Hayton, 2017). Furthermore, possibly in response to the comments, China seized an American research drone operating in the SCS (British Broadcasting Corporation, 2016a).

Militarisation in Southeast Asia

China has become the second largest military spender after the USA (National Priorities Project, 2015). The Chinese Department of Defense stated that they spent $180 billion dollars on defence in 2015 compared to $120 billion dollars spent on defence in 2011 (Center for Strategic & International Studies, 2016b). Chinese military expenditure has increased by a rate of 12% per year and this has enabled China to develop a larger navy than that of the USA (Rachman, 2015: 41). Chinese President Xi has planned to expand China's naval power so that it can challenge the USA by the 2030s (Lam, 2015: 194).

In March 2013 China expanded the State Oceanic Organisation, under which the Chinese coast guard operates, and this has been an important tool in enforcing Chinese claims in the SCS (Lam, 2015: 195). Harassment of oil and gas corporations has come primarily from Chinese naval and coast guard vessels. This has created financial hardships for oil and gas corporations as Chinese naval and coast vessels have cut oil and gas exploration cables and rammed vessels with their own ships (Opsal, 2016; Clark, 2016). However, the Vietnamese and Philippine navies have used their own resources to deter Chinese vessels from either ramming the oil and gas ships or cutting their exploration cables (Fabi & Mogato, 2012).

Vietnam has tried to improve its security ties with Japan, the Philippines and the USA (Hiep, 2015). The Vietnamese and American navies conducted joint operations and exercises in 2014 and Vietnam received six patrol boats from Japan (Hiep, 2015). Vietnam has fortified many of the islands under its control in the Spratly Islands with long-range rockets capable of reaching the Chinese-controlled Paracel Islands (Torode, 2016).

4.3.1.5 Technology

Military Technological Advancements

China has long-range missiles that could strike American military installations such as those in Guam (Lendon, 2016). China has also modernised its short, medium and intermediate ballistic missiles, high-performance aircraft, integrated air defence networks, information operations capabilities, and amphibious/airborne assault units (*South China Morning Post*, 2016b; Krishnamoorthy, 2016). Furthermore, China has built a new aircraft carrier and have developed "carrier-killer" missiles designed to destroy aircraft carriers (*South China Morning Post*, 2016b; Center for Strategic & International Studies, 2016a).

4.3.1.6 Law

International and Maritime Laws Relevant to the SCS Disputes

On 12 July 2016, The Hague ruled against China's nine-dash line and favoured the Philippines' claims (Hunt, 2016). The Chinese government refused to recognise the findings and ignored the ruling (Phillips, Holmes & Bowcott, 2016). The Hague also declared that China had conducted illegal activities within the Philippines' EEZ by trying to stop oil and gas corporations from extracting natural resources (Hunt, 2016). However, there is no capacity to enforce the findings of The Hague (Hunt, 2016).

4.4 Step Three: Establishment and Analysis of Trends

4.4.1 Trend One: China's Ascension as an Economic and Political Power

From 2000 to the present day China has experienced a period of tremendous economic growth and prosperity (Trading Economics, 2017a). From 2000 to 2013 China regularly achieved an annual gross domestic product (GDP) growth rate of 8% or more (Trading Economics, 2017b), enabling China to achieve a GDP of approximately $11 trillion dollars in 2015 (Trading Economics, 2017a). Rachman (2015) noted that China's share of real-world GDP will increase from 13.6% in 2010 to approximately 20% by 2050 (Rachman, 2015: 30). This economic growth has enabled China to enhance its status in the global political arena as a premier economic and military power (Rachman, 2015: 59). This economic growth has also enabled China to become a crucial trading partner both internationally and regionally and this has made China an indispensable member of the global economy (World Integrated Trade Solutions, 2017a, b, c, d). China has also established the AIIB as an international source of infrastructure investment and already has a long list of members including Australia, India, France, Germany and the United Kingdom (Asian Infrastructure Investment Bank, 2017a).

4.4.2 Trend Two: A More Assertive Chinese Foreign Policy in Southeast Asia

The linkage between China's economic growth discussed in Trend One and its more assertive foreign policy was established by He (2007), who argued that "the domestic and foreign policies of any modern nation, must, to some extent, reflect the nation's economic character" (He, 2007: 32). China's economic growth has enabled it to wield more diplomatic power and therefore "flex its muscles regionally to advance its strategic interests" (Foreign Policy Association, 2014), enabling China to protect its core national interests (Lam, 2015: 192), which include ensuring Chinese security through protecting its borders and maintaining its

maritime sovereignty (Xi, 2014: 10). This emphasis on security is prudent, as China is heavily reliant on the trade that flows through the SCS through the Straits of Malacca, which Rachman (2015) identified as vulnerable because it can be closed, thus cutting off most of China's oil and gas imports (Rachman, 2015: 98). Lam (2015) argues that China also seeks to obtain influence and control in Southeast Asian (Lam, 2015: 196). Cronin (2014) states that to obtain this influence and control, the Chinese have used its military, coast guard, diplomacy, trade relations, domestic laws and international laws to assume legal and physical dominance over the SCS in a strategy he called "tailored coercion" (Cronin in Hiebert, Nguyen & Poling, 2014: 25-26). Cronin notes that tailored coercion has involved avoiding conflict and seeks to assimilate the SCS peacefully, albeit using economic factors such as trade and investment to encourage cooperation and discourage resistance (Cronin in Hiebert, Nguyen & Poling, 2014: 25-26).

4.4.3 Trend Three: America's Unclear Foreign Policy Direction

Since the election of Donald Trump as President of the USA in November 2016, American foreign policy, notably regarding Asia, has appeared to lack a coherent direction. Storey and Cook (2016) argue that Trump's behaviour and lack of clear policy goals for Southeast Asia have led to uncertainty regarding the USA's commitment to its staying power in the region (Storey & Cook, 2016). The mixed messages that Trump has sent regarding the SCS have ranged between "either a more confrontational posture towards China or less engagement in the [SCS] dispute" (Storey & Cook, 2016). An important constant thus far in Trump's policy towards Southeast Asia is his desire to increase the American military presence (Tiefer, 2016), which Holland (2017) noted may be utilised in the SCS (Holland, 2017). Supporting this claim, Trump pledged to increase the size of the American Navy from 274 to 350 warships (Storey & Cook, 2016). Another constant regarding Trump's foreign policy thus far has been the adherence to his America First strategy (Bremmer & Kupchan, 2017). America First implies a more self-interested American foreign policy in which the USA acts strictly according to its own interests (Bremmer & Kupchan, 2017). However, Storey and Cook argue that this approach could lead to "an America that is more 'hands off' when it comes to Asian security [and] could lead to greater Chinese assertiveness" (Storey & Cook, 2016). This potentially "hands off" policy conflicts with Trump's desire to bolster American naval power, thus revealing further potential contradictions in Trump's foreign policy.

4.4.4 Trend Four: Geopolitical Competition between China and the USA

China's implementation of a more assertive foreign policy in Southeast Asia has and will continue to result in geopolitical competition between China and the USA in the future. John Mearsheimer identifies three important elements of this geopolitical competition between the USA and China: the presence of geopolitical conflict in the SCS between China and the USA, its likely continuation and the potential for escalation (Mearsheimer, 2014: 463). The presence of geopolitical conflict has manifested in the competing territorial conceptualisations that China and the USA have of the SCS. Ignoring The Hague ruling in June 2016, which delegitimised China's nine-dash line claims in the SCS, China has continued its developments on the islands in the SCS, and maintained its territorial claims (Hunt, 2016). This clashes with American policy in the SCS which includes protecting freedom of navigation and upholding UNCLOS, which China has perceived as an attempt to constrain its rise (Liedman, 2016; Wesley, 2017: 119). This distrust of American intentions may only be exacerbated by Trump trying to increase funding to enlarge the size of the USA navy, potentially to increase American presence in international waterways such as the SCS (Tiefer, 2016; Holland, 2017). However, it is unlikely that the dispute will escalate to such an extent such that war will occur within the next year, as President Xi aims for China's navy to match the American navy only by the 2030s (Lam, 2015: 194). Gompert (2017) echoed this view in stating that "The stakes are not high enough, and the disputes not severe enough, to prompt leaders of either country to start a conflict" (Gompert, 2017). This view has merit, as China and the USA remain massive economic partners and a war would inflict considerable damage on China's economic growth and development (Bremmer, 2016).

4.4.5 Trend Five: China as the Economic Hegemon in Southeast Asia

China has become a primary trading partner and source of investment for its regional neighbours, which affords China a considerable degree of influence over them. As of 2015, China was the second and third largest export market for Vietnam and the Philippines respectively and the largest import market for both countries (World Integrated Trade Solution, 2017c, d). China's trade with its regional neighbours has played a role in regional development (Anderson & Ayres, 2015), with Bader (2005) noting that trade with China has made it an important source of economic growth (Bader, 2005). China has also become the primary source of investment in the region through its One Belt One Road Initiative, which is meant to increase regional trade, investment and economic development (*China Daily*, 2015). An important element of the One Belt One Road Initiative is the AIIB, which has invested approximately

$979 million dollars and $663 million dollars in Philippine and Vietnamese infrastructure projects respectively (Asian Infrastructure Investment Bank, 2017b). In terms of bilateral investment, China has exponentially increased its investment projects, notably in Vietnam (Son, 2015). However, China has used this economic leverage to encourage compliance with its regional agendas. During the 2014 Haiyong Shiyou 981 incident, there were anti-China protests in Vietnam and so China froze imports from Vietnam as a punitive measure for the protests (The Economist, 2014). Lam (2015) noted that President Xi has adopted an approach to "set aside [sovereignty] disputes and pursue joint development (Lam, 2015: 196)." This means that for joint economic development to be possible, China's neighbours must accept China's sovereignty over the SCS (Lam, 2015: 196). An example of China putting this approach into practice occurred in 2014, when China invested a mere $41.4 million dollars into the Philippines, an action that Stern (2016) argues was punishment for the Philippines' complaints regarding the SCS (Stern, 2016).

4.4.6 Trend Six: China's Prominent Role in Regional Tensions

While multiple countries are involved in the SCS dispute, China's territorial claims in the SCS and its desire to enforce them have served as a driving force in the dispute. Pertaining to regional influence, Joseph Nye states that "only China can contain China", because it is only by China's actions that regional instability can be established (Nye, 2013). China's SCS claims impinge upon its neighbours' EEZs, which has led them to reinforce their own territorial claims (Hunt, 2016). As a result, Cronin (2014) argued that "Although China is not alone in seeking to advance its territorial claims and maritime interests, China's behaviour is uniquely escalatory", because China has engaged in a policy of incentivising and coercing its neighbours to assert its sovereignty in the SCS (Cronin in Hiebert, Nguyen & Poling, 2014: 25-26). China's overall interest in the region is rooted in its desire to expand its control, but it wants to avoid creating further escalating tensions with its neighbours as this will jeopardise potential win-win economic relationships mentioned in Trend Five (Lam, 2015: 191; Cronin in Hiebert, Nguyen & Poling, 2014: 26). There are indications that China's tailored coercion is working, as the new President of the Philippines, Rodrigo Duterte, has sought Chinese investment for infrastructural development and the Philippines has engaged in talks with China regarding joint excavations in the SCS (*South China Morning Post*, 2016a; Daiss, 2016). Thus while Chinese coercion has increased regional tensions, its overall goal of using economic and diplomatic incentives to encourage compliance may dissuade future resistance to its regional ambitions.

4.4.7 Trend Seven: Domestic Factors as a Driver of State Foreign Policy

Nationalism and domestic political interests have played a considerable role in influencing tensions in the SCS dispute between China and its regional neighbours. However, the linkages between these factors and their influence on government policy are complex. China's citizens have been overwhelmingly supportive of their government asserting its nine-dash line claims (Xi, 2016), even criticising the Chinese government for not being stern enough regarding their actions in the SCS (Aleem, 2017). This pressure will be present during China's 19th Party Congress, taking place in late 2017, where President Xi will have the opportunity to consolidate his support in the Chinese government (Bremmer & Kupchan, 2017). However, to accomplish this, he will need to have protected Chinese core national interests such as the SCS and help complete China's rejuvenation after the country's Century of Humiliation (Bremmer & Kupchan, 2017; Xi, 2016; Rachman, 2015: 26-27). Nationalism has also been a factor in Vietnamese and Philippine perceptions of the SCS dispute, with Vietnamese and Philippine citizens disputing what they perceive to be impingements upon their country's sovereignty (Nguyen, 2016). However, the presence of nationalism has not directly correlated with changes in government policy. This is largely because nationalist sentiments have been used selectively by governments in order to achieve specific aims (Weiss, 2014: 1-2). According to Weiss (2014), China has used certain elements of nationalism to satisfy its own diplomatic goals (Weiss, 2014: 1-2). Pertaining to Vietnam and the Philippines, their respective governments have to weigh the benefits of continued economic, diplomatic and security cooperation with China mentioned in Trends Five and Six against asserting its maritime borders and satisfying the nationalism present in their own countries.

4.4.8 Trend Eight: Threats towards Oil and Gas Corporations

Numerous oil and gas corporations have experienced harassment and intimidation, including larger ones such as Exxon Mobil and Chevron, which have primarily experienced political pressure (Cunningham, 2014). Smaller oil and gas corporations have also contended with physical harassment which has included Chinese threats to ram oil and gas ships, and Chinese maritime surveillance vessels severing the exploration cables of Vietnamese oil survey ships (Fabi & Mogato, 2012; Buszynski, 2012: 141). Although the Philippines and Vietnam have provided surveillance planes, patrol ships and light attack aircraft to provide security, their constant presence has been required to discourage intimidation tactics by Chinese vessels (Fabi & Mogato, 2012). Oil and gas corporations such as Exxon Mobil have also been told by China to excavate elsewhere and have had consequences threatened against their oil and gas

enterprises in China (Cunningham, 2014; Hayton, 2014: 141-142). In retaliation for Exxon Mobil's cooperation with PetroVietnam, China cancelled a planned joint-venture $1 billion dollar natural gas facility in 2008 that would have been partially built in Hong Kong by Exxon Mobil (Hayton, 2014: 141-142).

4.5 Step Four: Construction of the Driving Forces, Turning Points and CIAs

4.5.1 Driving Force One: Chinese foreign policy direction towards the SCS

Chinese foreign policy direction in the SCS has proven to be a key driving force in the dispute and will continue to play an important role in the future. As noted in Trends One and Two, China's economic growth has facilitated its growing geopolitical ambitions (Bader, Lieberthal & McDevitt, 2014), and through its policy of tailored coercion and regional economic development (Cronin in Hiebert, Nguyen & Poling, 2014: 25; Lam, 2015: 196), China has tried to reshape the American-centric geopolitical power structure in the region (Haddick, 2014). While China has exhibited "uniquely escalatory" behaviour (Cronin in Hiebert, Nguyen & Poling, 2014: 25), it has not been the only country making territorial claims (Clark, 2016). However, China has enforced its claims on the SCS territory more forcefully, leading it to build installations on claimed islands and try to influence its regional neighbours to accept its territorial claims (Hunt, 2016; Hayton in Asia Unhedged, 2017). However, China's policy of tailored coercion has also alienated its regional neighbours (Cronin in Hiebert, Nguyen & Poling, 2014: 25-26). Thus it is not only China's territorial ambitions and behaviour that drive the direction of the dispute, but it is also driven it through evoking reactions from its neighbours.

Driving Force One: Turning Points

While China's territorial claims in the SCS are a core national interest and hence reneging on protecting those core national interests would harm President Xi's hold on power, there is uncertainty regarding the forcefulness of Chinese foreign policy over the timeframe. The two primary turning points consist of the two likely directions that Chinese foreign policy will take regarding enforcing its territorial claims. The first turning point entails China continuing its policy of tailored coercion, which has been defined as a gradual, conflict-averse expansion in the SCS (Cronin in Hiebert, Nguyen & Poling, 2014: 25), enforced through increased military presence in the region as well as the development of islands and shoals (Cohen, 2016; Hunt, 2016). This policy direction has been further defined by Kazianis (2016) as the "Keep Calm

and Build On Doctrine" and by Haddick (2014) as a "salami-slicing strategy", which has continued despite The Hague's ruling in July 2016 which delegitimised China's territorial claims (Kazianis, 2016; Haddick, 2014; Phillips, Holmes & Bowcott, 2016). Haddick defines this strategy as involving the small but gradual acquisition of territory (Haddick, 2014). An example of China implementing this strategy is its plan to build nuclear power stations in the SCS, consolidating its regional control (Duong, 2016). The second turning point entails Chinese expansions becoming more aggressive. Poling (2017) argues that in 2017, China will increase its naval, coast guard, and paramilitary presence in the SCS and thus "allow Chinese assets to consistently patrol the southern reaches of the nine-dash line as never before" (Poling, 2017). Poling's claim is supported by the fact that China expanded its coast guard in March 2013 and have modernised its navy (Lam, 2015: 195; *South China Morning Post*, 2016b). Furthermore, Mori (2017) argues that future Chinese policy could involve Chinese expansion of surveillance and reconnaissance activities, implementing an ADIZ or using its military bases in the SCS to facilitate potential escalations (Mori, 2017).

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Regardless of which turning point occurs, Exxon Mobil will be operating in territorially disputed waters, which means that they may continue to experience constraints to their operations. If China continues to implement its "Keep Calm and Build On" strategy, they will still claim waters within Vietnam's EEZ, including Exxon Mobil's excavation block 118 (Clark, 2017). Opsal (2016) notes that "If exploration or drilling were to commence in areas contested by China, expect to see harassment of the operations, impediments to work, and other state sponsored indirect and asymmetric means to discourage effective operations" (Opsal, 2016). Chinese reactions to oil and gas corporations such as Exxon Mobil impinging on territory that it perceives as theirs has included and may continue to include political pressure on Exxon Mobil to cease their operations, threats to discontinue oil and gas corporation enterprises in China, regulating Exxon Mobil aerial and sea-borne travel within the SCS and physically sabotaging oil and gas vessels and operations in disputed waters (Dutton, 2011; Buszynski, 2012; Jennings, 2016; Fabi & Mogato, 2012). However, if Chinese foreign policy were to become more aggressive, interference with Exxon Mobil operations could intensify, with the harassment and intimidation tactics utilised by China being implemented more forcefully.

4.5.2 Driving Force Two: American Foreign Policy towards the SCS

American involvement in the SCS dispute remains significant despite the uncertainty around President Trump's unclear policies towards Southeast Asia, which were discussed in Trend Three. Despite the USA having been the pre-eminent power in Southeast Asia since the end of World War Two (Bello, 2016), Trump's America First policy and the unpredictability of his administration's policymaking has shed doubt on continued American involvement in the region (Ng & Lo, 2017). This is significant as the USA is a treaty ally of several states in the Southeast Asian region, including Singapore and the Philippines (Rachman, 2015: 107). However, several American allies such as the Philippines, Malaysia, and Vietnam have doubted Trump's commitment to the region, and have explored further economic and security relations with China as a result (Ng & Lo, 2017; Berlinger, 2016). The USA has also proven to be the only power in the region which has the military power to challenge China's territorial claims, which had primarily been done through implementing FONOP missions to secure free passage through the SCS sea lanes (Liedman, 2016). Despite Trump's desire to increase the size of the American navy (Storey & Cook, 2016), it is unclear whether he intends to continue the FONOP missions, while reduced American naval activity in the SCS could galvanise China further.

Driving Force Two: Turning Points

Trump's potential policy directions in the SCS are the primary turning points in this driving force. Liedman (2016) provides two of the most likely directions that Trump's foreign policy could take over the next year; they consist of either making concessions to China's expansions in the SCS in order to keep the Sino-American relationship stable, or allowing China to keep the islands, reefs and shoals in the SCS presently under its control but allow no further expansion (Liedman, 2016). Pertaining to the strategy of concessions, Pillsbury (2016) argues that Trump will eventually improve ties with China and utilise negotiation to facilitate this warmer relationship (Pillsbury in Phillips, 2017). Tow (2017) corroborates this view by stating that Trump's Asia strategy will become more conciliatory as he will need to ensure future cooperation with China on issues such as North Korea's nuclear programme (Tow, 2017). The second strategy, which is to allow China to keep its current territorial gains regarding islands, reefs and shoals but curtail further expansion, is a strategy which would allow Trump to satisfy his campaign promise to be tougher on China (Kaiman, 2016). Enforcing current territorial boundaries may require American warnings to China against militarisation, aerial and naval FONOPS and increasing security cooperation with treaty allies (Liedman, 2016). Trump has

also called for a larger navy (Storey & Cook, 2016), which Holland (2017) mentions would likely be used to increase American military presence in geopolitically important areas such as the SCS (Holland, 2017).

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The potential repercussions of a concessions-based policy for Exxon Mobil are considerable. Haddick argues that American inaction in the SCS may encourage the salami-slicing strategy employed by China, which may eventually include the declaration of a Chinese ADIZ over the SCS (Haddick, 2014). Jennings (2016) notes that China could use an ADIZ to monitor non-military aircraft and regulate the passage of vessels through the SCS (Jennings, 2016), potentially forcing foreign oil and gas corporations such as Exxon Mobil to "get approval from regional Chinese authorities before any fishing or surveying" (Jennings, 2016). As Exxon Mobil is operating with PetroVietnam in waters claimed by China, this could result in Chinese attempts to regulate Exxon Mobil vessel passage through the SCS. Haddick (2014) notes that China has sought to enforce its territorial claims by limiting its regional neighbours from cooperating with foreign oil and gas corporations by inviting oil and gas corporations to bid in excavation blocks within Vietnam's EEZ (Haddick, 2014). If American policy focuses on containment, China may react sternly by increasing its naval and aerial patrols, as they did in August and December 2016 (Reuters, 2016; Krishnamoorthy, 2016). Furthermore, if China perceives that its territorial claims are threatened by geopolitical competition with the USA, this could result in them placing more political pressure on Exxon Mobil to cease their excavations with Petro Vietnam. Thus the impact of Driving Force Two on Exxon Mobil's operations is similar to the impact of Driving Force One. Additionally, more geopolitical tensions could also lead to armed conflict between China and the USA, with potential conflict consisting of a security threat to oil and gas operations in the SCS (Cordner, 2013: 49-50).

4.5.3 Driving Force Three: The Capacity for Domestic Pressures to drive State Foreign Policy

As discussed in Trend Seven, domestic pressures deriving from civil society or political institutions have played a role in shaping government policy towards the SCS dispute. Carlson (2015) states that in the ECS and SCS, "the key driver for conflict is the rise of nationalism, particularly in China" (Carlson, 2015). The 19th Party Congress will be held in late 2017 and there has been pressure on the government from the Chinese populace to act more assertively in the SCS (Bremmer & Kupchan, 2017; Aleem, 2017). This has been driven by nationalism

which has motivated China to pursue its core national interests (Xi, 2016). These domestic pressures have been important elements in China's "Keep Calm and Build On Doctrine" (Kazianis, 2016). However, Luo (2016) states that nationalism is also relevant to China's neighbours, notably Vietnam (Luo, 2016). However, while nationalism with Vietnam and the Philippines are relevant to this driving force, nationalism particularly within China prevails as a driver of tensions in the region, given that China has more aggressively enforced its claims.

Driving Force Three: Turning Points

The primary turning points regarding the impact of domestic pressures on state policy are whether these domestic factors will influence government policy on the SCS to become more aggressive or not. Nationalism has influenced Chinese policy makers, who view themselves "as defending the historical territorial possessions of China against foreign powers, especially China's geopolitical rivals" (Luo, 2016). Thus Chinese policy-makers expect President Xi to protect China's core national interests in the SCS ahead of the 19th Party Congress. Furthermore, President Xi will feel pressured to satisfy the nationalism of the increasingly wealthy and influential Chinese middle class (Solomon, 2016). Nationalism is also important in Vietnam's geopolitical mindset, as Vietnam fought China in the SCS in 1974 and 1988 (Luo, 2016). Thus nationalism and domestic expectations could lead to an escalation in the SCS dispute. The other turning point entails domestic pressures having no discernable impact on government policy towards the SCS. This would likely be a consequence of considerations of future economic and diplomatic relationships. Weiss (2014) argues that China has selectively supported certain nationalistic movements to achieve diplomatic goals (Weiss, 2014: 1-2). Over the next year these diplomatic goals will include facilitating regional trade and investment in order to complete China's One Belt One Road Initiative (*China Daily*, 2015). Thus while China may continue its policy of tailored coercion, its policy goals would seek to maintain regional peace and stability (Cronin in Hiebert, Nguyen & Poling, 2014: 25). Vietnam and the Philippines also may prefer to "set aside [sovereignty] disputes and pursue joint development" (Lam, 2015: 196). Thus given the growing regional economic ties to China, China's regional neighbours may ignore nationalist movements in the interest of economic development.

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If domestic pressures influence a more aggressive policy towards the SCS, this could result in a more-territorially sensitive China pressuring oil and gas corporations to cease their excavations in disputed waters (Dutton, 2011), as those excavations would be viewed as

undermining China's territorial claims. An example of nationalism pressuring China to enforce its claims more assertively occurred after China removed the Haiyong Shiyou 981 oil rig from Vietnamese waters in 2014 (Cunningham, 2014). China's removal of the rig provoked outrage from the Chinese populace, who believed that their leaders had not protected Chinese territorial interests (Cunningham, 2014). In the event that the Chinese government sees diplomatic benefits to acting on nationalistic sentiments regarding the SCS, they could exert more political pressure on Exxon Mobil to cease its excavations with PetroVietnam. Nationalism could also influence China to enact more forceful means of harassment, such as threats to ram oil and gas vessels as well as the cutting of oil and gas survey cables, as frequently committed by Chinese coast guard and militia vessels in the past (Buszynski, 2012). If Chinese nationalism does not impact Chinese foreign policy in the SCS, Exxon Mobil may still experience political pressure to cease its excavations as China's territorial ambitions in the SCS would remain.

4.5.4 Driving Force Four: China's Relations with its Regional Neighbours

The development of the relationships between China and its neighbours will continue to influence the evolution of the SCS dispute. Consulting firm Wikistrat identifies competing territorial claims in the dispute as a key driver of instability in the dispute (Diola, 2014). Glaser (2015) argues that this instability has specifically been shaped by "rising apprehensions about the growth of China's military power and its regional intentions" (Glaser, 2015). These competing narratives and the uncertainty regarding Chinese intentions have been argued to be at least partially motivated by nationalism and have led to several naval standoffs between the Chinese and Philippine/Vietnamese navies in the SCS, increasing the chances of armed conflict occurring (Glaser, 2015; British Broadcasting Corporation, 2014). However, high levels of economic interdependence have played a role in averting armed conflict (Luo, 2016). Uncertainty regarding long-term American commitment to the region has left American allies less confident about their ability to resist Chinese economic and diplomatic influence (Searight & Hartman, 2017). Hence the way that these states will respond to China's territorial ambitions over the coming year remains uncertain.

Driving Force Four: Turning Points

The first turning point in this driving force entails China's neighbours, notably Vietnam and the Philippines, uncertain of long-term American diplomatic, economic and military support, continuing to assert their territorial claims against China's nine-dash line, causing regional tensions between China and these countries to increase. Lending credence to this turning point,

according to the Asia Maritime Transparency Initiative, "Vietnam continues to modernise its military and seek closer security ties with Japan, the United States, and India in preparation for future Chinese assertiveness in disputed waters" (Asia Maritime Transparency Initiative, 2016). While Philippine President Duterte has favoured strengthening relations with China (*South China Morning Post*, 2016a), he has advocated for a bilateral solution to the dispute with China, indicating that the dispute remains unresolved (Heydarian, 2016). The second turning point entails Chinese economic and diplomatic incentives influencing its regional neighbours to be compliant with China's territorial claims. Heydarian (2016) argues that China has the capacity to encourage compliance, either by imposing an exclusion zone around the country's EEZ or through using potential trade and investment opportunities as incentives (Heydarian, 2016). Thus China's neighbours, growing economically more reliant on Chinese investment and trade, may make concessions to Chinese territorial ambitions in order to keep these ties intact.

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If China's neighbours acquiesce to China's territorial claims, then Exxon Mobil's excavation contracts with PetroVietnam may be threatened. With the disputed excavation blocks, such as block 118, potentially being seized by China, Exxon Mobil may need to facilitate excavations with CNOOC in future, which is possible, as CNOOC has awarded exploration tenders to foreign oil and gas corporations in the SCS (Offshore Energy Today, 2016). This emphasises the need for Exxon Mobil to maintain stable relations with China. However, if China and its neighbours continue to dispute Chinese territorial claims in the SCS as the first turning point entails, tensions will increase as China uses maritime resources such as its coast guard and maritime militia to enforce its territorial claims (Mori, 2017), potentially by harassing Exxon Mobil oil and gas vessels and drilling platforms (Levin & Penrose, 2015). This jeopardises Exxon Mobil's economic and safety interests regarding its operations. Furthermore, China may exert further political pressure on oil and gas corporations operating in disputed waters, and this includes Exxon Mobil (Hayton, 2014: 141). With the continued dispute over territorial waters, China may also allow other foreign oil and gas corporations to bid on excavation blocks that are situated within Vietnam's EEZ which may have already been leased by Vietnam (Levin & Penrose, 2015).

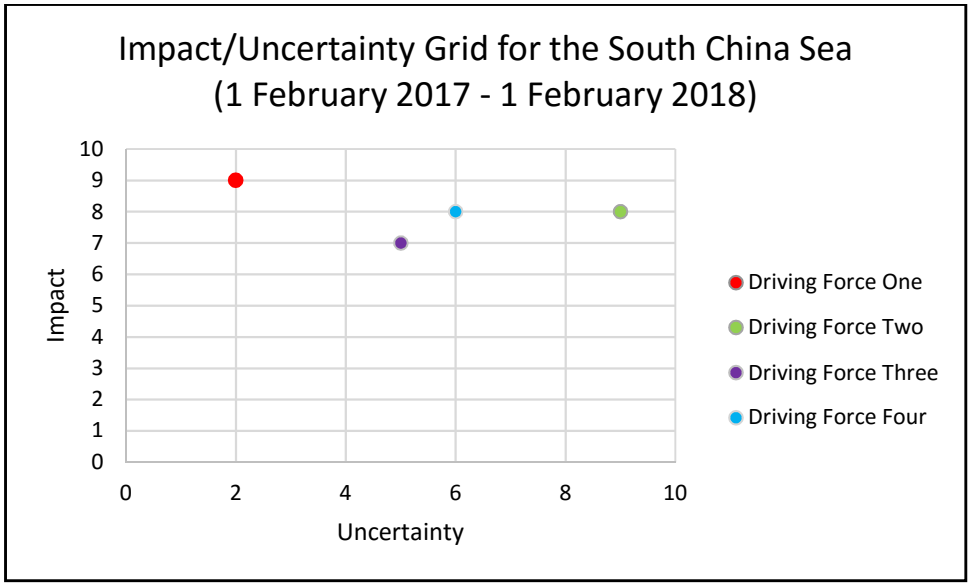
4.6 Step Five: Construction of Scenarios

4.6.1 The Impact/Uncertainty Rankings and Grid

Table 2: Impact and Uncertainty Ratings

Driving Force Title and Number	Uncertainty Rating	Impact Rating
Chinese Foreign Policy direction towards the SCS (Driving Force One)	2	9
American Foreign Policy direction towards the SCS (Driving Force Two)	9	8
The Capacity for Domestic Politics to Drive State Policy (Driving Force Three)	5	7
China's Relations with its Regional Neighbours (Driving Force Four)	6	8

Graph 1: Impact/Uncertainty Grid for the South China Sea (1 February 2017 – 1 February 2018)



(This graph was constructed by the author for the purposes of this study)

4.6.2 Summary of the Impact/Uncertainty Grid Ratings[22]

The driving forces concerning Chinese and American foreign policy directions in the SCS scored the highest Impact and Uncertainty ratings respectively. Regarding Impact, Chinese foreign policy direction scored a 9, as it has been the primary driving force in creating the

[22] Impact and Uncertainty Ratings are defined in Chapter Three (pg. 42).

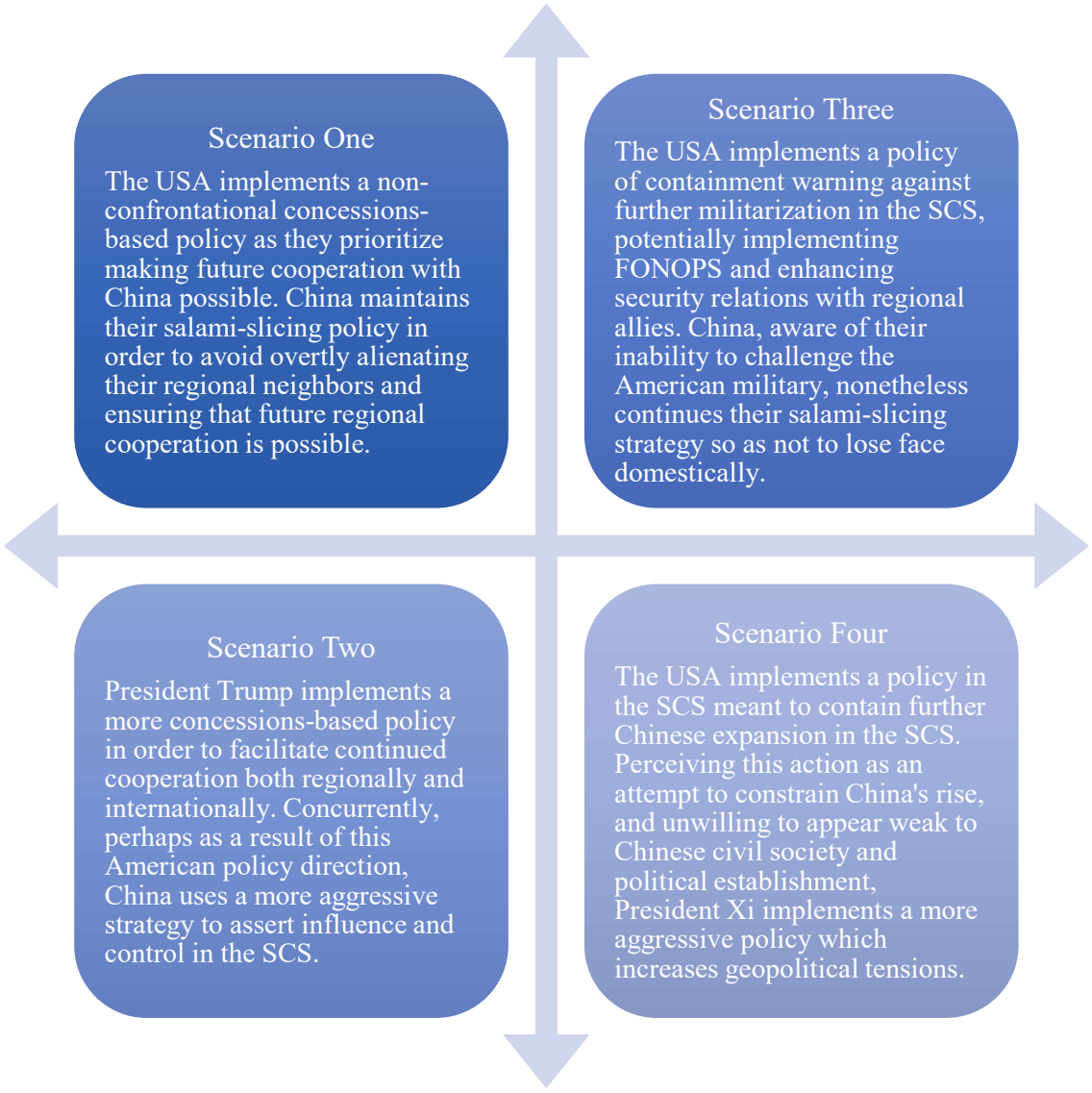
tensions between China's regional neighbours and with the USA. Described as "uniquely escalatory", China's geopolitical policies in the region have been centered on becoming the most influential power in Southeast Asia and protecting vital trade and energy flows (Cronin in Hiebert, Nguyen & Poling, 2014: 25; Kurlantzick, 2006; Wesley, 2017: 140). China's foreign policy direction has the largest effect on driving the region as China has sought to become the regional hegemon by coercing its regional neighbours through military, economic and diplomatic means (Ministry of Defence, 2016). American foreign policy and China's regional relations with its neighbours obtained lower Impact ratings as these two driving forces have been reactive to China's SCS foreign policy, as China is controlling the dynamics driving the dispute through the policy of tailored coercion in order to erode American influence in the region (Kurlantzick, 2006). The Japanese Ministry of Defence corroborated this by stating that "China will not tolerate counter territorial claims and might credibly use force to defend her sovereignty claims" (Ministry of Defence, 2016). Domestic pressures influencing state policy received an Impact score of 7 as the linkage between domestic politics and state policy is such that domestic pressures, while significant, do not always result in changes in policy direction because of economic and diplomatic priorities (Weiss, 2014: 1-2).

Regarding Uncertainty, American foreign policy direction towards the SCS scored a 9 rating. Storey and Cook (2016) state that the uncertainty regarding Trump's eventual policy towards Southeast Asia has placed in doubt the USA's commitment to Southeast Asian relations (Storey & Cook, 2016; Rapp-Hooper, 2016). Trump's and Tillerson's aggressive statements on China during and after the presidential election ignored the reality that the USA and China will need to cooperate on multiple global issues (Tow, 2017). This contradiction compounds the uncertainty regarding American foreign policy towards Southeast Asia. Domestic pressures and regional relations scored a 5 and 6 rating respectively. China's regional neighbours will likely either set aside sovereignty disputes in the interests of joint development or continue to assert their territorial claims, leading to continued tensions. Pertaining to domestic pressures, the primary uncertainty is whether economic or diplomatic priorities will influence governments beyond nationalism or domestic political factors (Weiss, 2014: 1-2) or if domestic pressures will prompt a more assertive policy. While these two driving forces contain uncertainties, the turning points are more easily identifiable. Chinese foreign policy in the SCS earned an Uncertainty score of 2, as the SCS is a core national interest for China and failing to protect China's interests could be politically damaging for President Xi.

4.6.3 The Scenario Matrix

As in the Impact/Uncertainty Grid, the x-axis consists of the most uncertain driving force, which is American foreign policy direction in the SCS, while the y-axis represents the most impactful driving force, which is Chinese foreign policy direction in the SCS. Regarding the x-axis, the left pole of the axis reflects an American policy of making concessions to China and the right pole reflects a policy of containing Chinese territorial expansion in the SCS as summarised by Liedman (2016). The upper pole of the y-axis represents a continuation of the "Keep Calm and Build On Doctrine" (Kazianis, 2016). The lower pole of the y-axis represents the more assertive Chinese foreign policy direction, which Mori (2017) argues may occur.

Figure 4: The Scenario Planning Matrix for the SCS (1 February 2017-1 February 2018)



4.6.4 Explanations of the Scenarios

4.6.4.1 Scenario One: Favouring Concessions

Both the USA and China employ non-confrontational strategies in the SCS, with the USA favouring making concessions with China to elicit its cooperation on other challenges and China continuing its policy of salami-slicing (Tow, 2017; Haddick, 2014). The reduced geopolitical competition will provide China with more control in the region, with American regional allies' fears of stagnating American commitments to the region being vindicated (Storey & Cook, 2016). However, China will avoid overtly alienating its regional neighbours, as Hong (2017) argues that China has been trying to avoid such a situation, cooperating with its regional neighbours to manage the dispute (Hong, 2017), although these efforts have fallen short in the past (Baviera, n.d.). Furthermore, China has an interest in regional stability in order to facilitate its One Belt One Road Initiative, which would provide regional trade and investment opportunities (*China Daily*, 2015). Thus China continues its developments in the SCS, albeit in a gradual manner, despite the reduction of American involvement in the region.

4.6.4.2 Scenario Two: China Assumes Control

President Trump will implement a concessions-based policy with the interest of maintaining stable relations with China. Concurrently, perhaps because of America's reduced presence, China will enact a more aggressive foreign policy towards the SCS. Mori (2017) claims that a more aggressive Chinese foreign policy direction towards the SCS could involve further usage of law enforcement and maritime militia vessels, which would allow China to enforce "domestic jurisdiction and regulation" more forcefully (Mori, 2017). Furthermore, China could harass foreign marine transportation vessels on the grounds of violating some Chinese "domestic regulation in its self-claimed maritime areas" (Mori, 2017). This harassment could affect oil and gas vessels, as there have been precedents for Chinese harassment of oil and gas vessels over the past few years. Furthermore, China could attempt to monitor and regulate air traffic through the SCS by establishing an ADIZ (Haddick, 2014). This could in turn increase tensions between China and its regional neighbours, potentially leading to a naval standoff between Chinese and Vietnamese navies.

4.6.4.3 Scenario Three: The Stalemate Continues

In this scenario President Trump implements a policy to contain China's expansion in the SCS while China continues its strategy of salami-slicing in the SCS, which may involve developing islands and shoals as well as territorial expansion. Realising that the Chinese navy is not yet

able to challenge the USA but also unwilling to appear weak to the Chinese political establishment and civil society (Solomon, 2016; Lam, 2015: 141), President Xi continues China's salami-slicing strategy in the SCS and upholds its claims of territorial sovereignty. It was shown after The Hague ruling in July 2016 that China would not soften its position in the SCS when faced with external pressure (Hunt, 2016). In order to implement its strategy of containment, the USA will likely warn against further militarisation in the SCS and implement maritime and aerial FONOPs in order to maintain free passage in the SCS (Liedman, 2016), although President Trump has shown no inclination towards specifically utilising FONOPs. Furthermore, this containment policy could also involve implementing the South China Sea and East China Sea Sanctions Act of 2016. While tensions will increase in the SCS, the likelihood for conflict will remain low as China will be more focused on steadily expanding its territorial claims instead of directly challenging the USA. American involvement in the dispute may also influence Vietnam and the Philippines to uphold the integrity of their EEZs.

4.6.4.4 Scenario Four: Escalation

This scenario contains the highest likelihood of conflict between China and the USA, with both countries implementing more aggressive policies in the SCS. The USA will implement a policy of containment and China will implement a more aggressive policy geared towards consolidating and expanding its territorial claims, possibly as a reaction to America's containment policy, as China has viewed American attempts to regulate China's territorial claims as a means to constrain China's rise (Liedman, 2016). America's containment policy, however, will not deter China's attempts to expand its regional control and influence, with Poling (2017) arguing that in 2017, China will likely continue to use its navy and coast guard to enforce its territorial claims despite the potential for further tensions (Poling, 2017). Nonetheless, the likelihood of an armed conflict remains unlikely, as China is aware of its current military disadvantage (Friedman, 2017). However, Mizokami (2016) and Farley (2015) argue that conflict is possible, especially with an increased Chinese and American naval and aerial presence in the SCS because of both countries' more assertive strategies (Mizokami, 2016; Farley, 2015). Farley (2015) notes that "both China and the United States are making a commitment in the South China Sea that each may find difficult to back away from", noting further that a potential aerial collision or miscommunication, either in the air or sea, could lead to an escalation (Farley, 2015). This conflict could also result from China's more ambitious naval and aerial activity, as it implemented "combat patrols" near disputed islands in August

and December 2016 (Glaser, 2015; Reuters, 2016; Krishnamoorthy, 2016). As a result, armed conflict is a possibility with the increased military presence and rising tensions.

4.7 Step Six: Identification and Explanation of Political and Political-Security Risks and Risk Mitigation Strategies

4.7.1 Political Risk Factors for Exxon Mobil from 1 February 2017 to 1 February 2018

Harassment by Chinese naval and coast guard vessels

It must be established that harassment of Exxon Mobil vessels and drilling platforms is a risk factor that is present in all four scenarios as China has used harassment tactics in the absence of an escalation in tensions in the SCS (Buszynski, 2012: 141). However, Exxon Mobil operations experiencing harassment is more probable in Scenarios One, Two and Four as China will either be freer to implement their salami-slicing strategy and/or it will implement a more aggressive foreign policy in the SCS, using its expanded maritime law enforcement and militia fleet to intimidate foreign oil and gas corporations operating with Vietnam and the Philippines (Lam, 2015: 195; Mori, 2017). The CIA for Driving Force Two argued that if the USA implements a concessions-based policy, which occurs in Scenarios One and Two, China would be freer to enforce their territorial claims in the SCS, which could result in Exxon Mobil operations being more prone to harassment and intimidation. The CIA for Driving Force One stated that a more aggressive Chinese foreign policy direction may involve more forcefully upholding its SCS territorial claims, especially in the event of geopolitical competition in Scenario Four. Regarding Scenario Four, Storey (2012) notes that further geopolitical competition occurs in the SCS between China and the USA, "they [China] could adopt the same tactics as they did last year and harass the drilling vessels" (Storey in Reuters, 2012), indicating a higher risk of harassment for oil and gas operations as regional tensions increase. Harassment could include the cutting of exploration cables, notably of PetroVietnam oil survey ships (Buszynski, 2012), the harassment of drilling platforms as well as Chinese vessels either threatening to ram oil and gas vessels or attempting to ram them or physically damage or impede their movement (Levin & Penrose, 2015; Fabi & Mogato, 2012). While Chinese harassment has largely avoided targeting vessels explicitly belonging to larger oil and gas corporations such as Exxon Mobil (Storey in Orendain, 2012), Exxon Mobil is excavating for oil and gas in the SCS in cooperation with PetroVietnam, which has been targeted for harassment. This threatens the safety, profitability and sustainability of Exxon Mobil

operations in the SCS, especially if harassment occurs in the contested block 118, in which Exxon Mobil and PetroVietnam are building the planned 'Blue Whale' pipeline (Clark, 2017).

Political Pressure and Threats

China has placed political pressure on a multitude of oil and gas corporations, including Exxon Mobil, which have entered into contracts with PetroVietnam (Buszynski & Roberts, 2015: 98). This political pressure has consisted not only of Chinese warnings to oil and gas corporations to cease their operations in disputed waters but also threats of consequences against oil and gas enterprises in China (Buszynski & Roberts, 2015: 98). Scenarios One, Two and Four contain the highest probability of this risk factor arising due to China facing less resistance to its territorial claims in Scenarios One and Two, as well as implementing a more aggressive Chinese foreign policy in Scenarios Two and Four. In these scenarios, China may seek to intimidate foreign oil and gas corporations operating within waters claimed by China and thus prevent them from undermining China's territorial claims. However, it must be noted that this risk factor is omnipresent throughout all four scenarios as China has used political pressure on oil and gas corporations including Exxon Mobil before the tensions in the SCS escalated in 2010 (Buszynski & Roberts, 2015: 98). In July 2008, China threatened 'risks' against Exxon Mobil energy enterprises in China if further activities were conducted (Buszynski & Roberts, 2015: 98). Exxon Mobil ignored this threat and China cancelled a planned $1 billion dollar energy refinery which was to have been built by China and Exxon Mobil (Hayton, 2014: 141). Therefore this risk has the potential to inflict severe economic losses on Exxon Mobil if they are forced to abandon excavations or other projects in the SCS or with China that they may have invested heavily in. However, given the lack of Exxon Mobil enterprises currently being implemented in China (International Crisis Group, 2016), this risk is no longer as relevant as it was in 2008, but a mentionable one nonetheless, as Chinese political pressure may threaten future lucrative projects between China and Exxon Mobil over the timeframe.

Regulation of Air and Sea Travel in the SCS

While China has not implemented an ADIZ in the SCS, it is possible that China will consider implementing an ADIZ in all four scenarios, but especially so in Scenarios One, Two and Four. In these scenarios, China will be freer to assert territorial control in the SCS as well and/or implement a more aggressive foreign policy towards the SCS. This may involve increased Chinese surveillance and reconnaissance activities (Mori, 2017), especially if China feels challenged by the USA (Chan, 2016), which may occur especially in Scenario Four.

Furthermore, China may implement an ADIZ in Scenarios One and Two as they may seek to test President Trump's resolve (Kazianis, 2017). While the ADIZ is commonly used as a tool to regulate and monitor military air traffic, Chan (2016) argues that the ADIZ may be used as a means to assert overall territorial sovereignty over the SCS (Chan, 2016). In order to enforce its territorial claims, China may use the ADIZ to screen and potentially order non-military planes to avoid the area, which has been the case in China's ECS ADIZ (Jennings, 2016). In conjunction with this potential ADIZ, Jennings (2016) notes that China has established regulations for assigned vessels, potentially the Chinese coast guard, to check foreign ships, as well as for these foreign ships to receive approval from regional Chinese authorities before they can conduct fishing or survey activities (Jennings, 2016). Chinese regulation of Exxon Mobil vessels could impact the profitability and sustainability of their operations if these regulations may result in Exxon Mobil operations being delayed due to their vessels being disallowed to travel through areas within the SCS. While there is no evidence of these regulations impacting oil and gas operations thus far, if tensions between China and its regional neighbours or the USA were to increase, this could result in these regulations being enforced more stringently.

4.7.1.1 Political-Security Risks for Exxon Mobil from 1 February 2017 to 1 February 2018

Transnational Security Risk: Armed Conflict in the SCS

While the likelihood of an armed conflict occurring in the SCS has been described as unlikely, the CIA for Driving Force Two mentioned the possibility for an increase in tensions between China and the USA which could lead to armed conflict. This is especially true in Scenario Four, where Chinese and American foreign policies in the SCS will be more aggressive. Storey (2012) claims that in the event of increased American naval presence in the SCS, potentially through their policy of containment, China may "take a stronger line against them and send in warships" (Storey in Reuters, 2012). Glaser (2015) further argues that "The most likely and dangerous contingency is a clash stemming from U.S. military operations within China's EEZ that provokes an armed Chinese response" (Glaser, 2015), thus armed conflict specifically between China and the USA is the primary focus of this risk factor, as China has avoided conflict with its regional neighbours. There is a great degree of uncertainty regarding where such a conflict may occur, making it difficult to determine how an armed conflict in the SCS could impact Exxon Mobil operations. However, it is unlikely that the conflict would directly affect Exxon Mobil's operations, as Teo (2017) noted that the Pentagon has favoured

expanding naval patrols and may thus be challenged by China near the Paracel or Spratly Islands (Teo, 2017), which are situated south and southeast of Exxon Mobil's excavation areas (South China Sea Think Tank, 2017).

4.7.2 Risk Mitigation Strategies

Breakdown of Strategies

Risk Minimisation

Political Risk Factors addressed:

- Political and economic pressure
- Harassment
- Regulation of Air and Sea Travel in the SCS

Strategy: Explore alternative exploration blocks that exist outside of China's claimed territory in the SCS.

Impact: This strategy eliminates the likelihood that the excavation contracts between Exxon Mobil and PetroVietnam will be perceived by China as challenging its territorial claims. Thus a Chinese backlash against Exxon Mobil will not occur and it will maintain positive relations with China for future commercial cooperation. This strategy is relevant for all four scenarios as the three risk factors are present in each of them. However, given that profitability of operations is a key interest for Exxon Mobil, and that Exxon Mobil has maintained operations in the SCS despite the presence of such risks (International Crisis Group, 2016), this strategy is more strongly recommended if Scenarios One, Two or Four occur, as Exxon Mobil's operations may no longer be as profitable or sustainable.

Risk Elimination

Political Risk Factors addressed:

- Harassment
- Armed Conflict

Strategy: Obtain security for Exxon Mobil ships, equipment and operations from the Vietnamese navy.

Impact: Intended primarily as a deterrent, Vietnamese naval vessels can dissuade Chinese naval or coast guard vessels from physically interfering with their excavations (Fabi & Mogato, 2012). This mitigation strategy is useful notably for Scenarios One, Two and Four, as harassment is a risk factor present notably in Scenarios One, Two and Four, while armed

conflict is especially relevant in Scenario Four. This enables Exxon Mobil to decrease the impact and likelihood of these risks and take a step in ensuring the profitability and safety of its operations. It is not suggested that Exxon Mobil utilise private security, as "untrained private security could instigate a clash by mistake" (Levin & Penrose, 2015). Furthermore the 100 Series for the Use of Force, which regulates the behaviour of private maritime security corporations, states that usage of force by private security is allowed primarily against pirates and is less effective for regulating interactions between state actors (Levin & Penrose, 2015).

Political Risk Insurance

Political Risk Factors addressed:

- Armed Conflict
- Regulation of Air Travel in the SCS
- Harassment

Strategy: Being able to indemnify losses associated with political risks would decrease the financial impact that these risks could have on Exxon Mobil.

Impact: While this is a reactive strategy, it could be very important if risks such as armed conflict or harassment come to fruition, as they could result in physical damage to capital assets. This strategy is more highly recommended if Scenarios One, Two or Four occur. If Exxon Mobil cannot decrease the likelihood of such risks occurring, it can limit the financial loss that these risks can inflict upon Exxon Mobil, which is crucial as Exxon Mobil has suffered significant financial losses since 2012 (SRS Rocco Report, 2016).

Risk Avoidance

Political Risk Factors addressed:

- Political and economic pressures

Strategy: Ignoring the risks imposed upon Exxon Mobil.

Impact: This strategy has been used by Exxon Mobil over the past several years in response to the political pressures exerted by the Chinese government, notably after China attempted to discourage Exxon Mobil from excavating with PetroVietnam (Hayton, 2017). Instead of implementing risk elimination or minimisation strategies, Exxon Mobil could ignore China's political and economic pressure as they have done since China tried to pressure them to cease their excavations with PetroVietnam (International Crisis Group, 2016). This strategy is viable for all four scenarios, as Exxon Mobil has limited economic developments in China to be threatened or cancelled (International Crisis Group, 2016). This could ensure the

profitability and safety of operations, as harassment has to this point largely ignored larger oil corporations (Storey in Orendain, 2012). However, this strategy can be argued to be especially viable in Scenarios One and Three, as they do not introduce a major escalation in tensions. However, in Scenarios Two and Four, Exxon Mobil may be unable to ignore more vociferous Chinese territorial claims or the impact of armed conflict.

4.8 Conclusion

The overall purpose of this chapter was to utilise the scenarios-based risk mitigation method constructed in Chapter Three in order to determine if the method could positively answer the last two research questions, which sought to test the method in the case study of the SCS. Through the accumulation and analysis of information in order to strengthen the understanding of the scenario planning environment, the method constructed four scenarios in a scenario matrix for the SCS dispute covering the time period from 1 February 2017 to 1 February 2018, thus answering the third research question. Addressing the final research question, the method identified four political risk factors that Exxon Mobil may face over the timeframe based on the scenarios and provided four mitigation strategies and explained in which scenarios they would be most applicable. In the fifth and final chapter the method's structure and performance in this case study will be analysed, recommendations will be made and the extent to which the research questions were answered considered.

Chapter Five: Conclusion and Evaluation of the Study

5.1 Introduction

According to Slezak (2013), political risk analysis is "a fundamental, often underestimated, strategic function of business management" (Slezak, 2013). Perhaps because of this lack of appreciation for the field, some political risk analysis models implemented have often analyzed information inadequately, resulting in subpar understandings of political environments and inaccurate estimations of potential political risks (Slezak, 2013). In the introduction to Chapter One, it was noted that a stronger appreciation of political risk analysis and discovering alternative means to implement it, notably through utilising scenario planning to facilitate risk analysis and mitigation, could have led to a better understanding of the political risks facing the Tigantourine Gas Facility in January 2013. From this example, as well as through establishing the reality that the global political environment has become more difficult for corporations to operate in, it was determined in Chapter One that it was necessary to explore means to mitigate political risks. This study sought to construct an alternative method using scenario planning as a tool for political risk analysis and mitigation in order to identify an another means to avert the subpar risk analysis mentioned by Slezak. Thus the study developed a scenarios-based risk mitigation method, utilising scenario planning and political risk management theories and methods developed by authors in these fields such as Bremmer and Keat (2009), Ringland (1998) and Schoemaker (1995); this was meant to facilitate the utilisation of the scenarios and the analysis they offered to identify political risks and mitigation strategies for a corporation. The study tested this method in the case study of the SCS in order to identify political risks and mitigation strategies for oil and gas corporation Exxon Mobil. This final chapter of the study outlines the progress and development of the study, assesses the study and its contents and it is determined whether it has answered the research questions. The limitations of the study are addressed afterwards and the chapter concludes with recommendations for future research on the topic of the study.

5.2 Progress of the Study

The first chapter of this study introduced and explained the purpose and significance of the study. An introduction to the content of the study was provided, which included explaining the potential for scenario planning to be used as a tool for political risk mitigation and the opportunity to construct an alternative method to facilitate this goal. The introduction also introduced the SCS case study that would test this method utilising scenario planning to

conduct risk mitigation. Important literature necessary for the completion of the study was identified and discussed. The research problem and questions were explained and listed respectively, and it was established that the study sought to explore how an alternative scenario planning method could be constructed as a tool for political risk mitigation and that this method would subsequently be applied to Exxon Mobil's operations in the SCS from 1 February 2017 to 1 February 2018. After outlining the research questions, the objectives and significance of the study defined what the study intended to accomplish and explained why the study is significant for the field of political risk management as a whole. The final elements of the chapter discussed the research design and methodology of the study, its limitations and the outlines of each chapter.

Chapter Two explored the literature explaining and discussing the theories and fields which the study used. Establishing problem-solving and decision-making theory as the foundation for the rationales of scenario planning and political risk management, the chapter discussed and defined the fields of scenario planning and political risk management, which included political risk analysis, political-security risk and mitigation. Given that neither scenario planning nor political risk management have a central definition, various pieces of literature explaining and discussing scenario planning and political risk management were consulted in order to provide more detailed definitions and conceptualisations. The chapter then defined classical and post-modern understandings of geopolitics, as they are important elements in understanding the case study environment that the method would be applied to. These definitions and conceptualisations proved useful in constructing the scenario planning method and thus provided the rationale underpinning the method.

Chapter Three used the definitions of the theories and fields compiled in Chapter Two in order to construct a scenario planning method which would be used for political risk mitigation, thus answering the primary research question: *How could an alternative scenario planning method be used as a tool for political risk mitigation?* The chapter first explained how Frans Cronjé's scenario planning method served as a structural foundation for this method as well as the additions made to Frans Cronjé's scenario planning method in order to construct this study's method. All six steps comprising of the method were then discussed, with their explanations including a rationale for each step, its structure and what it adds to the overall method. As the method is meant to be implemented for a corporation or organisation, the method incorporates information on corporation's identity and interests as an important factor in its implementation,

thus addressing the first sub-question asked in Chapter One: *How could the method relate the scenarios to the operations and interests of the corporation such that the method can use the scenario planning to identify and analyse political risks relevant to the corporation's operations and provide mitigation strategies?* To answer this question, the first step of the method, Framing the Scenario Planning, included information on the background of the relevant region and the corporation's industry and operations there, as well as a breakdown of their interests in those operations. Step Four uses this information, as well as using the information and analysis collected and conducted in Steps Two, Three and Four, to construct the driving forces and the primary turning points for each driving force and CIAs. The CIAs analyse how each driving force and its turning points may impact on the corporation in terms of affecting potential operational constraints. This keeps the corporation relevant in the overall method, enabling the method to utilise the CIAs in conjunction with the scenarios constructed in Step Five in order to identify and explain the political risks relevant for the corporation and to recommend mitigation strategies in Step Six.

Chapter Four implemented the six-step method for Exxon Mobil in the case study of the SCS in order to answer the final two research questions, which sought to test the method by constructing scenarios for the SCS region and using the scenarios to identify political risks and mitigation strategies for Exxon Mobil. Thus the study tested the method in a case study, which concerned identifying scenarios and using those scenarios to isolate and explain risk factors and mitigation strategies relevant for Exxon Mobil's operations in the SCS from 1 February 2017 to 1 February 2018. Steps One to Four compiled and analysed information on the SCS environment and its social, economic, military and political dynamics as well as Exxon Mobil's operations in the region. These steps were especially important in the context of a case study design as case studies explore real-life systems through extensive collection and analysis of information (Creswell, 2013: 97). This enabled the case study to "summarise the major problem/s" and "identify alternative solutions to this/these major problem/s" (Monash University Library, 2007). This was a primary motivation for all six steps of the method, as Step One to Five summarised the problems through collecting and analysing information to understand how the SCS environment could evolve over the timeframe. This enabled Step Six to identify political risks that Exxon Mobil would likely experience and prescribe risk mitigation strategies and thus identify solutions to the problems. Specifically, the method accomplished this by determining how these driving forces could develop by identifying primary turning points as well as how each driving forces and their turning points could impact

Exxon Mobil through constructing CIAs for each driving force. The study determined that Chinese foreign policy direction in the SCS and American foreign policy direction in the SCS were the most impactful and most uncertain driving forces respectively, thus they formed the axes of the scenario matrix, with their respective primary turning points consisting of the directions of each axis. The matrix constructed four scenarios from the four turning points interacting with one another, providing four different futures for the SCS region over the timeframe. From the CIAs performed in Step Four, the method identified how each driving force could have an impact on Exxon Mobil in terms of the corporation facing potential political risks to its operations. Therefore these CIAs, along with the scenarios, allowed for the method to identify potential political risks and isolate which scenarios would be most relevant per risk. Concluding the chapter, the method used the scenarios and information on corporation interests in order to identify and explain viable mitigation strategies.

5.3 Overview of the study

It was established in Chapter One that the primary objective of this study was to construct an alternative method which could utilise scenario planning as a means to facilitate political risk mitigation. While scenario planning has been used in conjunction with political risk management (Ringland, 1998: 20), the primary research question for this study asked how this could be accomplished through the creation and implementation of an alternative method, as uncertainties within political environment are still creating risks for corporations. Thus the first element of this study sought to construct a step-by-step method which could, notably using Cronjé's (2014) scenario planning method as a structural inspiration, construct futures for a specific region or country and incorporate the interests and information on a corporation in order to relate the scenarios to the corporation, enabling it to identify and mitigate political risks, thus addressing the first two research questions. The first two research questions of the study were addressed in Chapter Three, where the method was explained step-by-step. The method constructed in Chapter Three utilised information collected on the corporation in Steps One and potentially Step Two to identify how the driving forces used to construct the scenario matrix could affect the corporation in the form of CIAs. This information and CIAs in turn enabled the method to identify how the scenarios could introduce politically-related risks, with the method also utilising the scenarios themselves to inform mitigation strategies. The second element of this study sought to answer the final two research questions by applying the method in a practical real-world environment using a case study. This also provided the opportunity to answer the primary and second research questions in a practical environment after the method

was constructed in Chapter Three. The method was applied to Exxon Mobil's operations in the SCS with the intention of constructing scenarios for the SCS from 1 February 2017 to 1 February 2018 and using the scenarios to identify risk factors and mitigation strategies. This would provide a means to test the applicability of the method constructed.

A case study was chosen to test the scenario planning method because a case study is useful in explaining the process and result of a phenomena through monitoring and analysing the specific case (Tellis, 1997: 3, 7). Thus through testing the scenario planning method in a specific environment, a more complete understanding of how the method works, its practicality and where it could be improved further could be obtained. The study primarily utilised secondary sources when implementing the method in the case study as it relied heavily on articles and books, which analysed, evaluated and contextualised evidence (University of Victoria, 2017). The following scenarios were constructed in Chapter Four after this information on the SCS was collected, organised and analysed in Steps One, Two Three and Four.

- Scenario One: Neither China nor America employ aggressive policies in the SCS, with Trump utilising a non-aggressive policy to make future cooperation with China more likely while China continues its policy of salami-slicing.
- Scenario Two: China implements a more aggressive foreign policy in the SCS while the USA employs a concessions-based policy. With greater freedom to enforce their territorial claims, China increases its military presence in the SCS.
- Scenario Three: China continues its territorial salami-slicing strategy, while President Trump implements a foreign policy in the SCS focused on containing Chinese territorial expansion. While tensions increase, conflict is avoided as China is aware of its military disadvantage.
- Scenario Four: Both China and the USA employ more aggressive policies in the SCS, with the USA trying to contain China's SCS expansions while China increases its military presence in the SCS in order to enforce its territorial claims. This scenario contains the highest likelihood for armed conflict.

The method then used the CIAs formulated in Step Four of the method as well as the scenarios to determine what risk factors Exxon Mobil may face over the timeframe. The CIAs identified that operational difficulties and constraints for Exxon Mobil in the SCS derived from China's

claim to waters within Vietnam's EEZ. Thus, on a broader level, China's capacity and willingness to enforce their territorial claims was determined to be a required condition for the existence of risk factors for Exxon Mobil, and an intensification of the dispute could exacerbate risks for them. Using the CIAs and scenarios, it was determined that harassment, political pressure, regulation of air and sea travel in the SCS and armed conflict were the political risk factors that Exxon Mobil may experience given the scenarios. The method, using the CIAs and the scenarios, was able to explain how these risk factors could develop or evolve in the scenarios, and communicate which scenarios are more relevant for each risk factor. With this information, four risk mitigation strategies were constructed that could be implemented, given the scenarios and Exxon Mobil's operational interests and goals. These mitigation strategies are outlined below.

- Risk Minimisation: explore alternative exploration blocks outside of China's claimed territory in the SCS. This strategy is most highly recommended if Scenarios One, Two or Four occur.
- Risk Elimination: obtain security for Exxon Mobil ships, equipment and operations from the Vietnamese Navy. While relevant for all four scenarios, this strategy is especially recommended in Scenarios One, Two and Four.
- Political Risk Insurance: being able to indemnify losses associated with political risks decreases the financial impact that these risks could have on Exxon Mobil. This strategy was deemed to be relevant notably for Scenarios One, Two and Four.
- Risk Avoidance: ignoring potential risks experienced by Exxon Mobil. This strategy is most applicable in Scenarios One and Three as the environment will likely be more stable for Exxon Mobil than in Scenarios Two and Four.

5.4 Evaluation of the Study

There are two issues which need to be noted in reviewing the study. The first concerns the case study itself and involves the dearth of information available on Exxon Mobil operations in the SCS. Substantial information on the oil excavations conducted by Exxon Mobil in the SCS, the corporation's revenues and costs of its SCS operations and information on how it has addressed existent and potential risk factors were not available. This made it more difficult to chart Exxon Mobil's specific interests and goals regarding their operations in the SCS in Step One of the method. This identifies a potential limitation of the method. If the corporation's operations and interests are unclear and misunderstood, then the method itself may be less effective. Furthermore, there is an overall lack of information on other risk mitigation strategies

that Exxon Mobil may have implemented or considered. For example, in Step Six, the method advises that Exxon Mobil implement risk elimination by securing Vietnamese Navy security against Chinese harassment of their operations. It may have been possible that Exxon Mobil could have eliminated this as a viable mitigation strategy in the past, but there is not any available information on this issue. Thus Exxon Mobil's interests constructed in Step One were more broad and based on articles which touched on Exxon Mobil's operations in the SCS, but were not optimally incisive because of this lack of information.

The second issue concerns the identification and analysis of political risk factors. Political risk analysis often utilises specific methods and models such as the PRS and BERI models, which provide types of risk factors that can be given ratings and assessments in order to better analyse their viability as risk factors (Howell & Chaddick, 1994: 71). This enables the user of that particular risk analysis method to discern the threat level of the risk. This particular element of political risk analysis was not present in the method constructed in this study. The risk factors were not provided ratings but were instead summarised and it was argued that the risks may have a higher or lower probability of being experienced based on the scenarios constructed. Hence the threat level for each risk factor was provided in this way. However, incorporating a formal risk analysis method which would contain a categorisation of various types of risks, similarly to Brink's (2004) risk analysis method, could add value to this particular method. This is because the identification of risks was heavily reliant on the information collected and analysed in the CIAs. This will be discussed further in section 5.5. If the information on how driving forces could constrain a corporation's operations is severely lacking, it would be more difficult to identify political risk factors from the scenarios. Thus incorporating a political risk analysis method such as Brink's (2004) method could provide a categorisation of potentially relevant risk factors which could be identified as most relevant, given the scenarios identified as opposed to relying heavily on the information collected in Steps One and Two and the CIAs.

5.5 Recommendations for future research

Pertaining to future research, a key issue for potential development of this research concerns incorporating a political risk categorisation into this method. While this was discussed in the previous section, it is also an opportunity for future development of the method. One means to develop this method further would be to develop scenarios for an environment and determine how the scenarios may affect the threat level of established risk factors over a certain timeframe. This is especially important in the event that the CIAs alone may not provide

satisfactory insights into what risks the corporation may experience along the driving forces. Using scenario planning to aid political risk mitigation appears to be an underdeveloped element in political risk management as a whole and further research into this could provide political risk management with a useful means to anticipate potential risk factors. Such methods could in turn be applied to uncertain political environments in order to identify political risks and provide mitigation strategies for corporations and organisations.

5.6 Conclusion

As the global political environment becomes more complex and difficult to forecast, scenario planning's capacity to identify and explain uncertainties within the environment in order to build scenarios for the environment will prove useful. However, merely constructing scenarios may not suffice as they alone may not inform a corporation on how to navigate the specific political environment that they have been operating in or will operate in. If scenario planning can be used to identify and mitigate political risks within an environment, it can enable decision-makers not only to anticipate these futures, but also to prepare risk mitigation strategies accordingly. Maack (n.d.) argued that scenario planning is useful for this function as it describes "how and why possible futures might occur," which in turn allows decision-makers to "reflect on how political, social, and economic changes affect the operation and plan accordingly" (Maack, n.d.). This study constructed a scenarios-based risk mitigation method with the goal of using scenario planning to facilitate political risk mitigation by collecting and analysing information on an environment in order to construct scenarios and identify, explain and mitigate political risks relevant for a corporation. However, the value of using scenario planning for political risk mitigation lies in its application to an uncertain political environment. The study applied this method to the SCS region for the oil and gas corporation Exxon Mobil and explored the SCS political environment by identifying and analysing uncertainties and key driving forces within it. The method was able to construct four scenarios and use them to identify political risks specifically relevant for Exxon Mobil and prescribe risk mitigation strategies. This study showed through the SCS case study how a political environment can be influenced by complex uncertainties, and while the method constructed in this study was able to use scenario planning to facilitate political risk mitigation, further exploration of this relationship would be a worthwhile endeavour.

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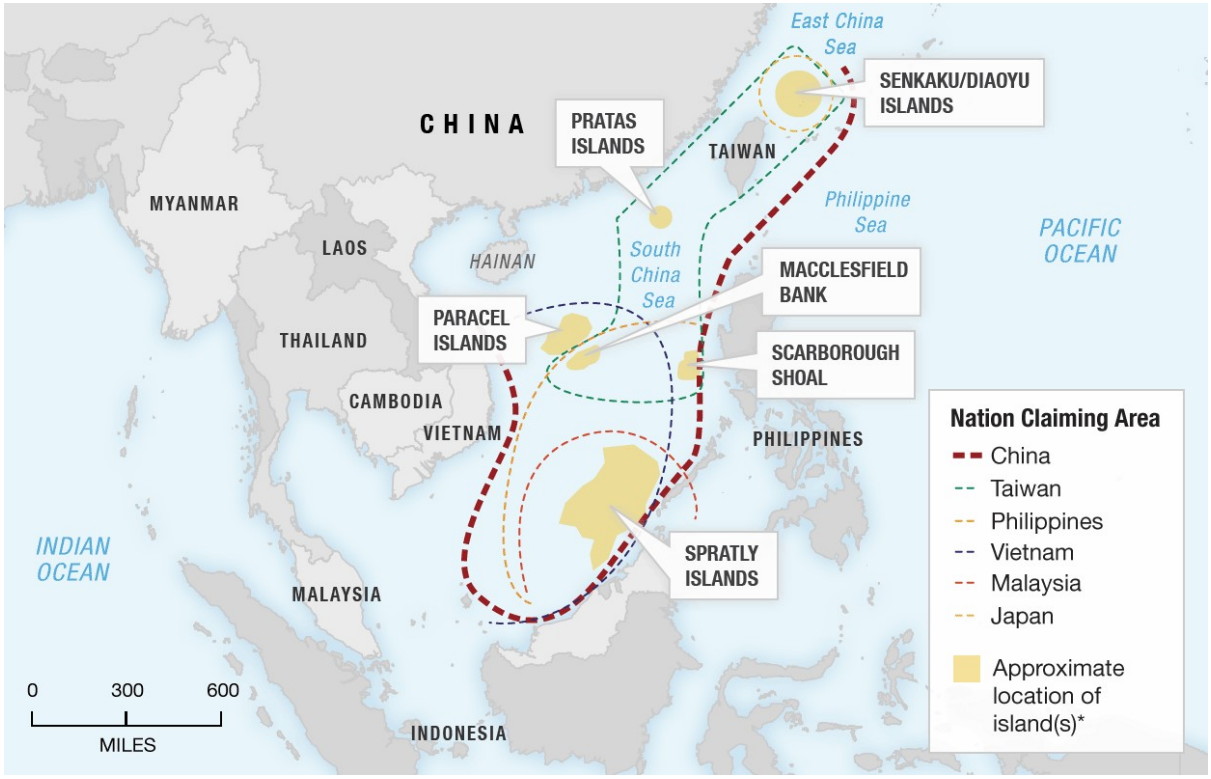
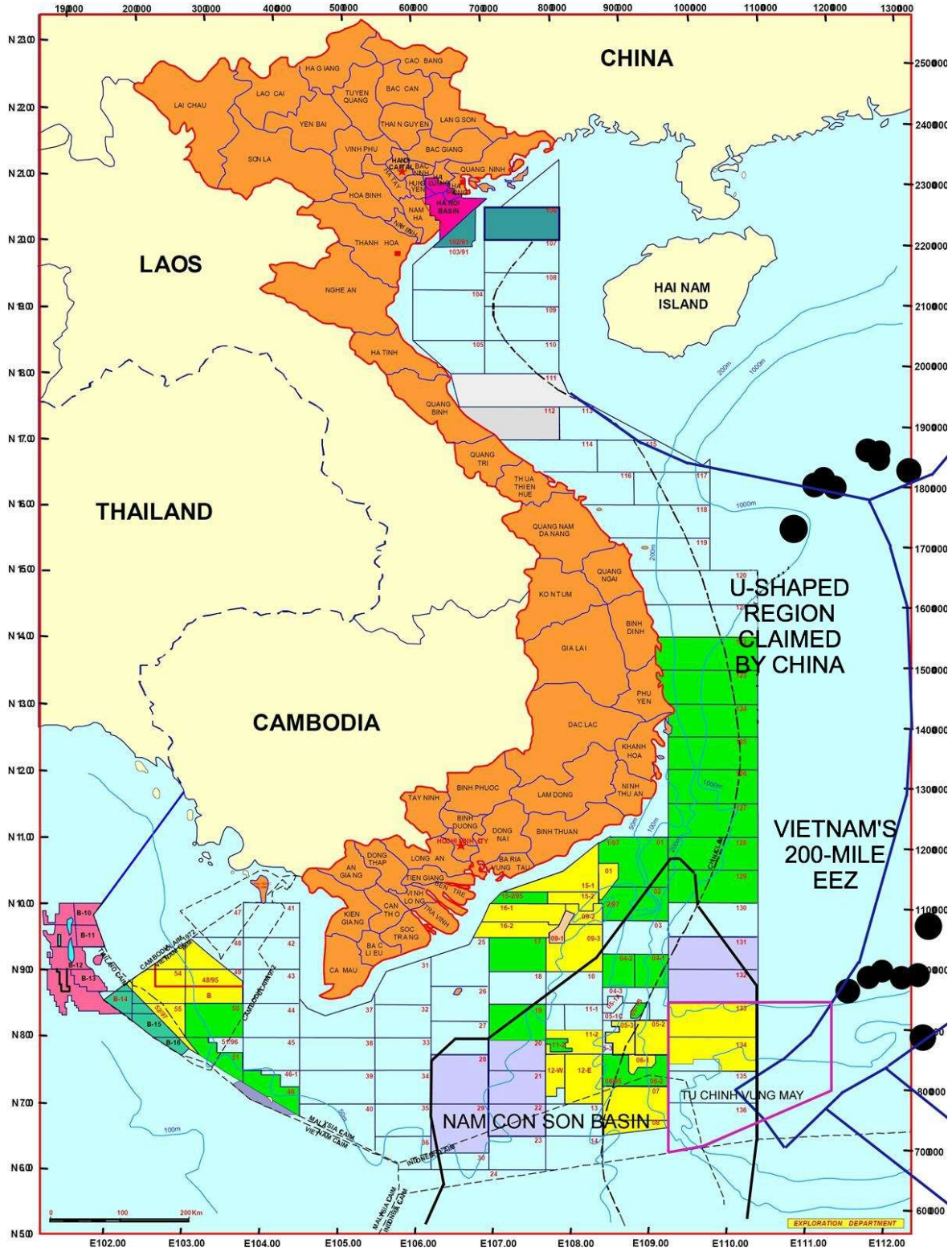
Appendix

Map 1: Conflicting Territorial Claims in the SCS



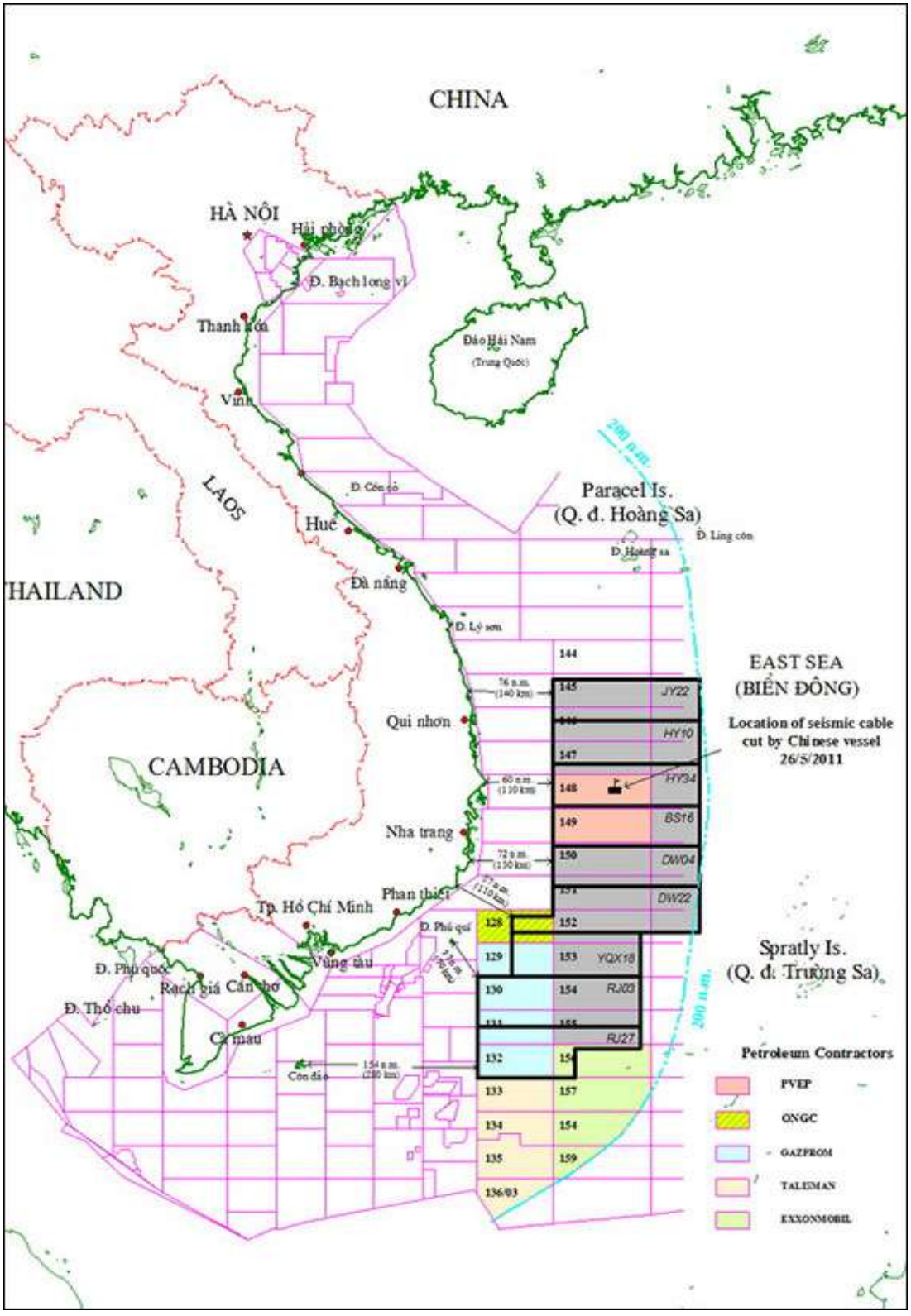
Source: (NPR, 2016)

Map 2: Oil and Gas Excavation Blocks in the SCS (Including blocks 117-119 awarded to Exxon Mobil)



Source: (Crude Oil Peak, 2016)

Map 3: Oil and Gas Excavation Blocks in the SCS (Including blocks 156-159 awarded to Exxon Mobil)



Source: (S & P Global, 2017)